

**U.S. Department of Housing and Urban Development
Monitoring Review Report**

**Department of Local Affairs
State of Colorado**



**Community Development Block Grant (CDBG)
Disaster Recovery Grant**

B-13-DS-08-0001

INTRODUCTION

The Department of Housing and Urban Development (HUD) conducts management reviews, in conjunction with monitoring visits, to ensure that its programs are carried out efficiently, effectively, and in compliance with applicable laws, regulations and established policy. These reviews are intended to assist grantees in improving performance, developing or increasing capacity, and augmenting management and technical skills. A management review is not limited to a one-time evaluation but is part of an on-going process that assesses the quality of a grantee's performance over a period of time and requires effective communication and cooperation between Federal, State and local partners.

From May 2 -6, 2016, HUD staff conducted an on-site monitoring of the State of Colorado's management of its Community Development Block Grant Disaster Recovery (CDBG-DR) funds. The entrance and exit conferences took place on Monday, May 2nd and Friday, May 6th at the State Office Building located at 1313 Sherman Street. Senior staff from the Department of Local Affairs (DOLA), Division of Housing (DOH), Office of Economic Development and International Trade (OEDIT), and the Governor's Office of Recovery and Resiliency (ORR) and HUD Disaster Recovery and Special Issues division staff participated.

The Department appreciates the cooperation of DOLA and ORR in this effort. DOLA is the lead agency responsible for administering the State's disaster recovery allocation under grant number B-13-DS-08-0001, authorized under the Disaster Relief Appropriations Act, 2013 Public Law (P.L.) 113-2, enacted January 29, 2013. The Department has allocated \$320,346,000 of CDBG-DR funds to the State of Colorado pursuant to the requirements of P.L. 113-2. Through its initial approved Action Plan for Disaster Recovery and three subsequent approved Action Plan amendments, the State has expended its initial obligation of \$62,800,000, with total expenditures of \$73,598,465 as of the date of this report.

SCOPE OF REVIEW

The following areas of grant management were reviewed for the identified programs or sub-grantees:

- Overall Management
 - Grant management including staff capacity
 - Administration of housing, economic revitalization and infrastructure programs, including record keeping
 - Review of established policies, protocols and procedures

- Economic Revitalization
 - Program Management
 - Eligibility and national objective compliance
 - Economic assistance programs
 - Reimbursement

- Housing

- Program Management
- Eligibility and national objective compliance
- Reconstruction/rehabilitation

- Infrastructure
 - Program Management
 - Eligibility and national objective compliance
 - Reimbursement

- Internal Audit Functions and Financial Management
 - Review of established financial management policies and procedures
 - Review of draw requests and support documentation for active programs

Exhibits were used to guide the review from the *Community Planning and Development Monitoring Handbook 6509.2*; they are available at:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/cpd/6509.2.

The HUD monitoring team include Tennille Parker, Director, Disaster Recovery and Special Issues Division (DRSI), HUD headquarters; Terrance Ware, Community Planning and Development Specialist (DRSI); Donna Roachford, Community Planning and Development Specialist (DRSI); Sandra Donaldson, Community Planning and Development Specialist (DRSI); Steve Higginbotham, Senior Community Planning and Development Specialist (DRSI); Phyllis Foulds, Financial Analyst (DRSI); and Kathleen Burke, Community Planning and Development Program Manager, HUD, Region 8

SUMMARY OF RESULTS AND CONCLUSIONS

Monitoring reviews may result in the identification of Findings, Concerns or observations. A Finding is a deficiency in a program performance based on a statutory, regulatory or program requirement for which sanctions or other corrective actions are authorized. A Concern is a deficiency in program performance not based on a statutory, regulatory or other program requirement. HUD issues a Concern about program design or operations when in HUD's judgement the practice could, if not corrected, result in noncompliance with a statutory, regulatory, or program requirement.

The monitoring team identified six areas of Concern and three Findings associated with the State's management of CDBG-DR funds. The detail associated with the Concerns and Findings are contained within the report below.

Overall Management

DOLA administers its grant through a Method of Distribution to six sub-grantees (partner

agencies). HUD staff met with Irv Halter, Executive Director, Dave Bowman, CDBG-DR Director, and Stephanie Morey, Compliance and Monitoring Specialist to discuss overall management. That discussion covered grant administration, citizen complaints, policy and procedures, projections, waivers, timelines for expenditure of funds, DRGR reporting, overall benefit requirements, Low-Moderate Income (LMI) requirements, and public services cap. HUD staff also provided technical assistance on matters concerning the overall management of the grant.

DOLA received \$320,346,000 in funding under P.L. 113-2 for long-term recovery. DOLA is making progress expending funds on its projects. As of March 31, 2016, DOLA fully expended its first round of funding in the amount of \$62,800,000 and is currently expending funds from rounds 2-8, to the sum of \$73,598,465.

Capacity

HUD staff discussed the State's systems and procedures for ensuring that CDBG-DR funds are used in accordance with program requirements. A review of the State's files evidenced that the State acknowledges the requirements set forth in the applicable Federal Register (F.R.) notices and actions plans. Policies and procedures were developed to facilitate compliance for staff and the State's sub grantee/partners. However, the policies and procedures are not consolidated in a manner to ensure all requirements are enforced and passed on to partner agencies and sub grantees assisting with the administration of the CDBG-DR program and its projects. By not having these policies and procedures in place, HUD is not confident that the requirements of the program are being passed on to the State's sub grantees and that policies and procedures are being enforced and adhered to by them.

Although the State does not have a consolidated set of written policies and procedures, the State has made progress in several areas to demonstrate that most of the administrative requirements are in place. The State has an approved/accepted action plan by HUD, completed grantee certifications, written agreements between the State and its sub grantees (Partners), risk analysis and monitoring plan, policies for preventing fraud waste and abuse, and a training plan.

The CDBG-DR Director, Dave Bowman is responsible for the day-to-day administration of the program. He has been in the position for two years. As CDBG-DR Director, Mr. Bowman makes recommendations to the Executive Director who ultimately provides direction. Although the disaster recovery team does not supervise the partners, Mr. Bowman routinely provides direction to them and their staff regarding compliance. Without Mr. Bowman having direct supervision over the Partner Managers, HUD questions whether he has the appropriate authority to effect change or force actions to occur regarding compliance with program requirements.

Reporting and Monitoring

Stephanie Morey is the DOLA compliance officer for monitoring. HUD reviewed the monitoring plan and was very pleased with the level of effort that was put into its organization. The plan is immaculate and includes the risk analysis, monitoring schedule, frequency of monitoring, and what will be reviewed, exhibits that are applicable to each review, technical assistance, and a report as well as follow-up for Findings and Concerns if any are made.

The State did not have an approach for monitoring its sub grantee/partners contractors. HUD staff provided technical assistance to the State and encouraged them to include the monitoring of its sub grantee/partner's contractors for compliance. HUD staff explained that it is imperative that the State knows that all requirements are being passed down to all parties assisting with the administration of the CDBG-DR grants. In addition to the monitoring plan, the State has an acceptable training plan and a technical assistance plan and schedule. DOLA provides training to its staff, sub grantee/partners and its contractors covering a host of CDBG-DR requirements as well as crosscutting program requirements. HUD staff reviewed the training objectives, the participants list and the attendance rosters. To date, the State has conducted six training sessions.

Public Website

HUD staff reviewed the States' website and found that it was comprehensive and that all required information was on the site in accordance with HUD requirements and the requirements set forth in the March 5, 2014 FR Notice.

Technical Assistance

HUD staff met with Dave Bowman and Stephanie Morey to provide technical assistance regarding the overall management of the CDBG-DR grant and its sub grantees. HUD staff found that the policies and procedures for the overall management of the grants are not consolidated. It is not clear how the requirements of the program are also delegated to the sub grantees to ensure compliance. Conversations will continue between DOLA and HUD to discuss solutions to help the State strengthen its capacity in an effort to meet its goals for the administration of the grant.

Citizen Complaints

During 2016, the State received two complaints: one regarding housing rehabilitation under the Single Family (Rental) Rehabilitation program and the other under the Housing Assistance program. DOLA has addressed and resolved the Single Family Rehabilitation program and is currently working to resolve the Housing Assistance program complaint in accordance with HUD requirements and DOLA's policies and procedures.

Sub-Grantee/Partner Agreements

HUD staff reviewed the sub grantee agreements between the State and its sub grantees/partners. HUD staff found that the agreements did not convey all of the CDBG-DR requirements to sub-grantees/partners and that some of the requirements are missing from the agreements. What HUD found is that some of the requirements were conveyed to the sub-grantee/partners in implementation workshops and training sessions. Technical assistance provided to the State indicating that all CDBG-DR requirements must be put in the agreements so that the State and HUD can be confident that the sub grantee/partners are cognizant of the requirements and compliant with the requirements of the program.

HUD staff recommends that the State update its agreements with its sub-grantee/partners within 90-days of receipt of this report. The State should also review the agreements between its sub-grantees/partners and their contractors to ensure that all program requirements have been

communicated and delegated. The State should mandate that those agreements are also amended to ensure that all program requirements are included.

ECONOMIC REVITALIZATION

Agriculture Business Grant Program Overview:

DOLA in partnership with the Colorado Department of Agriculture administers the Agriculture Business Grant Program. The program is designed to assist agriculture-related businesses located in counties designated as disaster areas as a result of the September 2013 flooding events. The program provides grants of up to \$150,000 which can be used to help Colorado agricultural businesses replace, repair or recover from damages directly or indirectly incurred by the floods. Grants are in the form of direct reimbursement of flood damage expenses or working capital assistance to small businesses as defined by the United States Department of Agriculture (USDA).¹ The businesses must have experienced documented damage and all work must be tied directly or indirectly to agricultural services or products.

Scope and Results of Review:

Activity Number	Activity Title	Activity Budget	Activity Type
R1-00-EAG-EAG-M65-LM-P-80-000	Agriculture Grants –LMI 80%	\$1,800,000	Economic Revitalization

The scope of review for the Agriculture Business Grant Program included a review of the DOLA CDBG-DR Agriculture Business Grant Program Policy Manual for Round 1, May 2015 (Policy Manual) and the Standard Operating Procedures handbook.

The Policy Manual was made available to HUD staff for review in both hard copy and electronic form and the Standard Operating Procedures handbook was made available in hard copy. Policies and procedures are updated as Federal Register Notice requirements are modified or as program operations require. The manuals establish policies and procedures for the operation of the Agriculture Business Grant Program including overall program management, eligibility and national objective compliance, determination of duplication of benefit, and compliance and monitoring. The Policy Manual was well organized and indexed and included sections describing overall program oversight, a summary of the types of assistance available, the application submission process, award determination, and closeout.

The Policy Manual also addressed identification and consideration of all other sources of disaster assistance for the same purpose to be identified and considered to prevent a duplication of benefit (DOB) including insurance, grants from USDA, other federal, state or local programs,

¹ The State had previously used the Small Business Administration (SBA) definition of small business, but requested and received a waiver from HUD to use the USDA definition.

and other private or nonprofit charitable funding.

Concern #1 Economic Revitalization – Recordkeeping: Duplication of Benefit Policies and Procedures: During the review, HUD recommended that duplication of benefit (DOB) policies and procedures should be expanded to include documenting files when funds typically available to assist with disaster recovery are not available to agricultural businesses. It was also recommended that the Standard Operating Procedures handbook be incorporated by reference into the Policy Manual.

Condition: DOLA provides lists of applicants to agencies for DOB third party verification. This occurs prior to initial payment and prior to final payment. DOLA also now requires a signed certification of all benefits at closeout. However, as discussed with DOLA staff, file documentation for individual grants does not contain clear evidence that agencies who typically provide disaster assistance (e.g., Federal Emergency Management Agency [FEMA], SBA, National Flood Insurance Program [NFIP]) are not providing assistance to agriculture related businesses.

Cause: DOLA did not have adequate policies and procedures in place to ensure third party verification is conducted for all sources of assistance.

Effect: Although the Policy Manual states farmers and ranchers are not eligible to receive assistance from FEMA for their agricultural businesses, it was unclear whether DOLA was conducting third party verification on some potential sources of assistance such as NFIP.

Recover Colorado Business Grant and Loan Program Overview:

The Colorado Office of Economic Development and International Trade (OEDIT) administers the Recover Colorado Business Grant and Loan Program. The program provides funding to small businesses as defined by the USDA and non-profit organizations located in counties designated as disaster areas as a result of the September 2013 flooding and 2012-2013 wildfire events. The State asked for and received a waiver to allow the use of the United States Department of Agriculture's (USDA) small business definition, substituting for SBA's definition.

Upstate Colorado Economic Development operates the program as a sub recipient to provide underwriting, awarding, and servicing for loans and grants offered through the program. The Colorado Small Business Development Center (SBDC) Network provides intake and application assistance on behalf of applicants. The program provides grants of up to \$50,000 and loans of up to \$100,000 for economic development assistance or microenterprise assistance which can be used for working capital, inventory, machinery, furnishings, equipment and payroll. The applicants must have experienced documented economic losses.

Tourism Marketing Grant Program Overview:

The Colorado Office of Economic Development and International Trade (OEDIT) administers the Tourism Marketing Grant Program on behalf of the State of Colorado. The program provides funding to not-for-profit or quasi-governmental organizations for the purpose of promoting the recovery and long term viability of areas or communities within the 18 counties impacted by the September 2013 floods. The program provides grants of up to \$150,000 which can be used to promote tourism and visitor spending, promote local and regional businesses, and create or retain jobs. Applicants must document concentrated economic losses that have had a large impact on the local economy relative to the size of the community.

Table 1: Archives Include in HUD’s Review

Activity Number	Activity Title	Activity Budget	Activity Type
R1-00-EGL-EGL-M65-UN-P-20-001 & P-80-001	Economic Development Grant & Loan Program UN 20% and 80%	\$465,751	Economic Revitalization
R1-00-EDT-EDT-M65-UN-P-14-001	Economic Development - Promote Tourism	\$500,000	Economic Revitalization (Tourism)

The scope of review included a review of the programs’ policies and procedures which were made available to HUD staff in hard copy and a preliminary review of several sub-recipient files. The manuals establish policies and procedures for the operation of the economic recovery programs including overall program management, eligibility and national objective compliance, determination of duplication of benefit, and compliance and monitoring.

Concern #2a: Economic Revitalization – Recordkeeping General Policies and Procedures:

Policies and procedures for the economic recovery programs were not found to be wholly accurate, complete, and orderly. During the review, HUD recommended that DOLA, OEDIT, and Upstate Colorado should conduct a comprehensive review of the economic recovery programs’ policies and procedures and revise as needed to ensure compliance with all CDBG-DR requirements and provide for consistent program implementation.

Condition: OEDIT and Upstate Colorado use separate, but similar, policies and procedures handbooks. While the handbooks include significant content with regard to implementation of the recovery programs, the handbooks lack uniformity of guidance and are not organized in a logical, systematic manner.

Cause: The State’s policies and procedures are not consolidated in a manner to ensure all requirements are enforced and passed on to partner agencies and sub grantees. As a

result, partner agencies and sub grantees separately develop their own policies and procedures.

Effect: The current organization and content of the separate policies and procedures handbooks do not allow the user to clearly follow the administration and implementation of the economic recovery programs.

Concern #2b Economic Revitalization – Recordkeeping: Duplication of Benefit Policies and Procedures: During the review, HUD recommended that duplication of benefit policies and procedures should be expanded to include documenting files when funds typically available to assist with disaster recovery are not available to small businesses, not-for-profit organizations, or quasi-governmental organizations.

Condition: OEDIT requires grant and loan recipients to complete and sign a DOB Affidavit and provide copies of applicable insurance policies, but file documentation does not presently contain clear evidence that agencies who typically provide disaster assistance (e.g., FEMA, SBA, NFIP) are not providing assistance to businesses or not-for-profit organizations.

Cause: OEDIT did not have adequate policies and procedures in place to ensure third party verification is conducted for all sources of assistance.

Effect: It was unclear whether OEDIT is conducting third party verification on some potential sources of assistance such as NFIP.

Concern #3: Economic Revitalization – Eligible Activities: The Business Grant and Loan Program provides working capital to small businesses for compensation of economic loss, but requires receipts prior to issuing payment as validation that the business owner invested in the business. During the review, HUD recommended that OEDIT revise the policies and procedures to clearly reflect the provision of CDBG-DR funds for working capital assistance.

Condition: Presently, OEDIT accepts receipts for expenses incurred between September 12, 2013 and February 28, 2015.

Cause: The State's policies and procedures for the overall management of grants are not consolidated. As a result, program requirements may not have been clearly communicated to partner agencies and sub grantees.

Effect: Because receipts are required and accepted for dates outside the time frame prescribed in *Notice CPD-15-07, Guidance for Charging Pre-Application Costs of Homeowners, Businesses, and Other Qualifying Entities to CDBG Disaster Recovery Grants*, the perception is that this is a reimbursement program.

Concern #4: Economic Revitalization – Recordkeeping: Low and Moderate Income Job Retention: The policies and procedures handbooks do not contain clear guidance on how to document that, in the absence of the CDBG-DR assistance provided, retained jobs would be lost. During the review, HUD recommended OEDIT execute grant agreements

with successful applicants. These agreements should incorporate necessary federal requirements, particularly recordkeeping requirements relative to the retention of jobs.

Condition: OEDIT does not execute grant agreements with approved applicants. Instead, OEDIT issues approval letters requesting a DOB Affidavit and Subrogation Agreement in addition to expense documentation. Applicants also submit the Business LMI Form – 2016 which reflects jobs created or retained at the time of award.

Cause: The State’s policies and procedures for the overall management of grants are not consolidated. As a result, program requirements may not have been clearly communicated to partner agencies and sub grantees.

Effect: Without executed grant agreements, necessary federal requirements are not passed down to the recipients. It was unclear to HUD staff how OEDIT intended to document that in the absence of the CDBG-DR assistance provided, retained jobs would otherwise be lost. Failure to adequately address this issue may result in the elevation of this Concern to a Finding in a future monitoring review.

HOUSING

HUD reviewed several of the State’s housing assistance programs, including Single-Family Rehabilitation (SFR) and Mobile Home Unit (MHU) replacement, Down Payment Assistance, and Multifamily Housing Construction for documentation of eligibility, national objective, tieback/connection to the disaster, and duplication of benefits (DOB) compliance. The Department also reviewed the monitoring checklist and procedures used by the State agency responsible for overseeing these housing programs, the Colorado Department of Housing (DOH). Overall, the administration of the State’s housing programs by DOH and its sub-recipients were well-run, and only minor technical assistance was provided.

Sub-recipient Monitoring

Since the majority of applicant eligibility and DOB information is maintained by the units of local government receiving grants, the monitoring standards and review documentation performed by that agency must be thorough in order for HUD to conduct its review and ensure that monitoring is being performed. HUD reviewed five DOH monitoring checklists to monitor one of its sub recipients, the Loveland Housing Authority. In general, the checklists documented DOH’s review of its sub recipient. When HUD identified one checklist that was incorrectly completed and brought the error to the attention of DOH staff, DOH explained that the staff member that originally completed the form had been retrained on the correct method. HUD recommends that all new staff be given training on how to properly document their monitoring reviews prior to monitoring events.

HUD noted that DOH only monitors approximately 25% of its sub recipients’ applicant files. Since DOB is a complex calculation (and therefore, a high level of risk), grantees typically ensure 100% monitoring of sub-recipients for duplication of benefits compliance. Therefore, the Department also recommends that DOH consider adding applicant DOB calculation worksheets

to the list of documents retained by the grantee, so that case managers may review DOB calculations without the necessity for travel, and then review supporting documentation during regularly scheduled monitoring visits.

Multi-Family Housing—Falcon Ridge

Falcon Ridge Apartments is a newly-constructed multifamily project that is using \$1.8 million of CDBG-DR funds for financing and construction costs to leverage \$38 million in private funds. Once developed, this project will create an additional 48 affordable rental units in Estes Park.

HUD issued one **Finding** in regard to an improper advance payment of \$219,000 that was due to a lack of internal controls in the financial management procedures used by DOH. This Finding and corrective actions are discussed in the “Financial Management” section of this report.

HUD also provided technical assistance on the subject of change orders. Each invoice period contained several change orders with numerous credits and debits; however, out of 12 invoice periods, only payment #8 contained a change order summary showing how the various change orders affected the project budget and timeline. A summary is very helpful to prevent cost over-runs and determining whether the change orders are necessary and reasonable. HUD recommends that DOH perform a change order summary with each invoice period for all of its multifamily housing projects.

HUD also recommends that DOH provide better documentation of change order approvals; there was no evidence that Loveland Housing Authority, the sub recipient approving draws for the project, ever questioned a change order. For instance, Change Order #24, for \$66,000 in additional contractor contingency fees, was submitted due to “unanticipated management costs” that were due to “city official’s involvement.” Without supporting documentation, the need for adding fees related to the normal cost of doing business is questionable, particularly when several other change orders provided credits for replacing items such as carpeting and cabinetry with inferior grade products in order to keep project costs down.

Longmont Housing Assistance Program

HUD staff performed a site review of the City of Longmont's housing programs, including its Rehabilitation and Mobile Home Unit (MHU) Replacement, Down Payment Assistance, and Tenant Rental Assistance. All of its programs were first-come, first-served, but also undersubscribed. Generally, HUD staff found that the city’s applicant files were well documented and administered. However, the Department recommends that the State develop a “pipeline” chart template for its sub recipients that tracks the number of damaged homes, number of program applicants, and at what stage of the recovery pipeline each is in (e.g., “eligibility verification”, “grant closing”, “under construction”, and “complete”).

Rehabilitation & MHU Replacement

Longmont's \$3.3 million Rehabilitation and MHU Replacement program in Round 1 has assisted approximately 40 homeowners (predominantly low- and moderate-income (LMI)) to repair or replace their "stick built" or MHU home and perform elevation of the unit where necessary. The city has taken applications for a second round of funding, and so far has had only 12 applicants. HUD staff reviewed one file, and found all eligibility, national objective, and DOB information to be present.

Down Payment Assistance (DPA)

Longmont provided assistance to 13 LMI residents in the form of low-interest loans or grants in order to purchase affordable homes. This activity should be closed out within the next fiscal quarter, as all program funds have been expended. HUD staff reviewed one DPA file and found that the DOB calculation worksheets was missing, though city staff readily supplied the missing documentation, so there are no Findings or Concerns. However, city staff should review the remaining DPA files to ensure complete documentation exists.

HUD also recommends the State and the city review the duplication of benefit documentation requirements to be sure all types of disaster recovery assistance are requested and identified. Specifically, the DOB calculation for DPA and Temporary Rental Assistance (TRA) did not address FEMA repair assistance as a potential DOB or source of funding. Longmont officials indicated the city did not consider FEMA repair funds when assessing the need for DPA or TRA, because both DPA and TRA are for a different eligible use (down-payment assistance and rental assistance, respectively). HUD staff indicated that there was no duplication of benefit, but the State and city should consider whether CDBG-DR assistance is necessary or reasonable when an applicant has [\$31,000 in] FEMA assistance that the household did not use for rehabilitating their home and verify whether those funds are available to use towards the unmet needs that the State identified.

Tenant Rental Assistance (TRA)

The review of housing included the city of Longmont Temporary Rental Assistance/Optional Relocation Program. TRA provided moving assistance, optional relocation assistance, or rental assistance for a new residence for low- and moderate-income owners of mobile homes that were going to be removed from a mobile home park as a result of the 2013 flooding event. The maximum award was \$1,450 for furniture; up to 2x the monthly rent for security deposits; up to \$400 for utility fees; up to \$9,500 for rental of a new replacement dwelling towards the purchase of a replacement mobile home or stick built home; and up to \$6,000 to move a mobile home.

HUD reviewed 3 files out of approximately 15 in the portfolio of assisted households. All files showed documentation of income for eligibility as well as a damage assessment to calculate the total replacement award and to demonstrate relationship to the disaster. The activity had been classified as meeting the CDBG urgent need national objective. The Department would like to

thank Kathy Fedler and the city of Longmont staff for explaining the program to the HUD team and providing access to the files.

HUD's review concluded that the city has an optional relocation policy that defines the program, benefit, and beneficiaries. The file documentation for assisted households has source documentation that included pay-stubs, benefits statements, and W-2 forms. The review focused on the calculation of replacement of mobile home units, and the replacement cost award appeared reasonable as the maximum benefit is a function of the determination that the cost to repair is more than 50% of the value of the unit. The files also included the requisite environmental review checklist. While HUD concluded that the city maintained documentation of core compliance requirements, the Department identified one Concern.

Concern #1 Housing: The final calculation of TRA awards does not include an unmet needs analysis to demonstrate why the optional relocation assistance was necessary or reasonable.

Condition: The files included in HUD's review identify documentation of SBA, FEMA, or insurance that an applicant received. The file also includes a calculation to determine the final award amount. However, the calculation worksheet does not include any assessment of remaining unmet need. This analysis and documentation appears to be included in the down-payment assistance program, but those programs were launched after the TRA program.

Cause: The implementation of the TRA appears to have occurred prior to the State's implementation of the full duplication of benefits policy.

Effect: The city (and possibly the State) may not be able to demonstrate compliance with the duplication of benefit requirements identified in the November 16, 2011 Federal Register Notice on duplication of benefits which requires an analysis of unmet need that accounts for all disaster resources. While the city's calculation accounts for multiple funding sources, the lack of unmet needs analysis may result in providing CDBG-DR resources that are not necessary or reasonable if a household has received other disaster resources.

HUD recommends the city modify the TRA procedures to incorporate the duplication of benefits unmet needs analysis that is present in the down-payment assistance program to ensure consistency and program compliance.

Boulder County Collaborative

HUD's review of housing programs included an overview of the Boulder County Collaborative, a local government-organized effort wherein Boulder County jurisdictions have joined together for their CDBG-DR funded disaster recovery efforts. The city of Longmont was designated the lead agency because of its experience in managing CDBG programs. All communities within the county impacted by the flood are welcome to join, and the collective also includes school, fire and water districts that were identified in the unmet needs analysis. The

local governments are linked by an intergovernmental agreement and each jurisdiction's proportion of unmet need is the primary basis for determining the total CDBG-DR funds awarded to the jurisdiction. Communities may enter or leave the Collaborative at the end of their respective project or when there is a new unmet needs analysis.

The Collaborative appears to be a model method for units of local government to combine resources and identify a high-capacity lead agency to administer recovery programs on behalf of the collaborative participants. The city of Longmont's administration is strengthened by its adoption of a central grants management system using the Salesforce product platform as part of a contract it has with Hagerty Consulting. The city's database includes key data on project status, monitoring efforts, and supporting documentation for draw requests. The system is also set up to be consistent with the DRGR action plan and import data that can be pulled from DRGR.

HUD recommends the city review the requirements for procurement to ensure the participating units of local government are using the State's (versus the city's) procurement requirements. HUD also recommended that the information on beneficiaries and individual infrastructure projects in the central grants management system to help facilitate the review of the CDBG-DR funded recovery activities.

INFRASTRUCTURE

Boulder County Property Acquisition Program

The purpose of the Boulder County Property Acquisition Program, funded at \$1.9 million and administered at the State level by DOLA, is to acquire and demolish remnants of single-family properties in Boulder County that were significantly damaged by the 2013 floods. Currently, the State's contract with Boulder County states that all buyouts will be classified under the national objective of Urgent Need (UN), even if an assisted household is LMI. If the State and county desire to reclassify any homes under the LMI Housing national objective, the State will need to amend their sub recipient agreement. To date, the program has assisted six property owners. All six files were reviewed by HUD staff, and all files contained adequate documentation of applicant eligibility, national objective, tieback to the disaster, and DOB.

HUD noted that in the sub recipient agreement with Boulder County, the State had incorrect language relating to record retention. The current language indicates that the sub-recipient has to keep records for five years after closeout of the sub recipient's program. However, 24 CFR 570.490(d) requires States and their sub recipients to retain records, including supporting documentation, "for the greater of three years from closeout of the grant **to the State**, or the period required by other applicable laws and regulations as described in Sections 570.487 and 570.488." [emphasis added]. Therefore, sub recipients must maintain records for at least three years after the state closes out its entire grant with HUD. The

Department recommends that DOLA review all sub recipient agreements at all levels to ensure that the proper length of record retention is in those contracts.

FINANCIAL MANAGEMENT

The purpose of the financial management review is to provide HUD with assurance the State of Colorado – Department of Local Affairs (DOLA) has implemented adequate systems and internal controls to account for receipts and disbursements of CDBG disaster recovery funds. HUD conducted its first onsite monitoring visit with DOLA in May 2016. The financial management review yielded three Findings and one Concern as defined below.

Internal Controls and Funds Management:

HUD reviewed DOLA's chart of accounts and financial management practices to ensure grant funds were handled in the same manner as other State funds as required by regulations. The agency's accounting system, budget reports and chart of accounts identified sound accounting practices across the entire grant. Some individual program areas had documented policies in place to ensure programmatic requirements were being followed, however, DOLA did not have a consolidated set of financial policies and procedures for overall management of the entire grant. In one instance, this lack of overarching internal controls resulted in the grantee's inability to minimize the time between drawdown of HUD funds and their use for an eligible expense. The lack of centralized financial management policies and procedures resulted in the following Finding and Concern:

Finding #1 Financial Management: DOLA does not have financial management Policies and Procedures as required to ensure proper internal controls are in place across the entire disaster recovery program.

Condition: During the financial management review, HUD reviewed work flows and various policies and procedures adopted for a number of disaster recovery programs, however, there was no one central set of policies and procedures to ensure internal controls are in place for management of the federal funds.

Criteria: 24 CFR 570.489 (d) (i) requires states to have fiscal controls and accounting procedures in place to ensure that funds are used in compliance with all applicable statutory and regulatory provisions.

Cause: DOLA does not have a central set of policies and procedures to identify internal controls for the CDBG-DR program.

Effect: Lack of central Policies and Procedures for the CDBG-DR program means that DOLA may be noncompliant with 24 CFR 570.489 (d)(i) and cannot provide assurance that the program has sufficient internal controls. The lack of controls was further evidenced by an overpayment under the Falcon Ridge Apartments project. Although the

Housing Program was aware of the overpayment, that information was not shared throughout the disaster recovery program, resulting in over \$200,000 in grant funded vendor payments being held by the grantee for several weeks before the funds were actually applied to eligible costs, which leads to Financial Management Concern #1 (identified below).

Corrective Action: DOLA must develop a set of Policies and Procedures for the entire CDBG-DR Program. These policies must include sufficient internal controls to assure all statutory regulations and requirements are being met. The Policies and Procedures must be maintained by DOLA and followed by the grantee, its sub recipients and all disaster recovery partners to assure compliance across all program areas. These should be submitted to HUD for review within 60-days of the receipt of this report.

Concern #1 Financial Management: DOLA does not have policies or procedures in place to properly manage funds that are drawn by a sub recipient and subsequently determined to have been ineligible. Those funds are not being applied in a timely manner to the grantee's next need for funding.

Condition: During the review of one of DOLA's multi-family housing projects, HUD identified an overpayment to a vendor of over \$200,000. While the sub recipient agency managing the housing program was aware of the overpayment, the information was not available to financial management staff who were responsible for the entire grant. As a result, the overpaid funds were held by the housing program for several weeks before they were applied to future eligible invoices from the same vendor, while additional grant funds continued to be drawn from HUD for other needs.

Criteria: 24 CFR 570.489 (d) (i) requires states to have fiscal controls and accounting procedures in place to ensure that funds are used in compliance with all applicable statutory and regulatory provisions.

Cause: DOLA did not have adequate grant policies and procedures in place to identify funds that were drawn by a sub recipient and later determined to be ineligible.

Effect: DOLA continued to draw grant funds from HUD instead of applying the applicable credits generated in the multi-family housing project to the grantee's next need for funding.

HUD recommends that DOLA improve program checks and balances to minimize the opportunity for overpayments. DOLA should establish sufficient funds control policies and procedures to manage applicable credits across the entire grant, not just within a single program area.

Staffing Plan and Organizational Chart:

The grantee's staffing plan and organizational chart were reviewed to test for adequate separation of duties and internal controls in approving payments, managing funds, and

determining cost eligibility. Position descriptions and the disaster recovery program's organizational chart showed division of duties and a clear chain of command for approval of costs, processing of payments, funds management, and reporting of possible fraud, waste and abuse. The staffing plan did, however, identify a number of staff members who were fully dedicated to the disaster recovery grant program but did not have the required biannual payroll certification to fully document that they were one hundred percent dedicated to the single grant program – resulting in the following finding:

Finding #2 Financial Management: DOLA does not perform required biannual payroll certification for staff who are fully dedicated to the grant program. – Finding is Closed

Condition: During the financial management review, HUD determined that the grantee did not have biannual payroll certifications for those staff members who are fully dedicated to the grant program, though the organizational chart identified a number of employees who are in such positions.

Criteria: According to 2 CFR 225 Appendix B – Selected Items of Costs, certain payroll costs must be supported by certifications as defined below:

Item 8. Compensation for Personal Services

(h) Support of salaries and wages.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Cause: A portion of funds drawn by DOLA for Administration have been for reimbursement of personnel costs. Some of those costs are for services provided by staff members who work solely on the disaster recovery grant (B-13-DS-08-0001). However, DOLA does not have the required payroll certifications for those employees nor policies to assure the certification requirements are fulfilled.

Effect: Lack of the required payroll certifications means that DOLA is noncompliant with OMB requirement found under 2 CFR 225 Appendix B. 8 (h)(3).

Corrective Action: DOLA must develop a payroll certification format and process for certifying staff whose only functions are dedicated to the disaster recovery program. The certification must be performed on a biannual basis.

Subsequent to the monitoring visit, DOLA developed the required payroll certifications and forwarded biannual documentation for the past fiscal year to HUD. This finding has been closed.

Single Audit Review:

2 CFR 200 Subpart F outlines audit requirements for both grantees and sub recipients receiving federal grant funding. HUD reviewed the State of Colorado Single Audit for the 2014 Fiscal Year. The audit covered multiple State agencies, including DOLA, and a number of their disaster recovery partner agencies. While the audit identified a number of deficiencies and weaknesses, none of them involved DOLA or any of the partner agencies in the disaster recovery program. The audit report for fiscal year 2015, which will be the first report that will include P. L. 113-2 funding, was due just prior to HUD's visit. The Colorado State Controller's office had issued a letter explaining that the delay in the report was caused by the State's recent transition to a new accounting system. The 2015 audit report is expected within the next few months. HUD will coordinate with DOLA and review the report at that time.

HUD requested DOLA's records to ensure sub recipient compliance with OMB audit requirements, but no such records were available – resulting in the following finding:

Finding #3 Financial Management: DOLA does not have a process in place to track sub recipient single audit compliance, manage sub recipient audit findings or ensure corrective actions are taken by sub recipients to address applicable audit findings or deficiencies.

Condition: During the course of the monitoring visit, HUD asked to see the agency's tracking of sub recipient single audit compliance. DOLA did not have documentation to demonstrate that they are tracking single audit compliance of their sub recipients. HUD further reviewed a sample of DOLA's sub recipient agreements. The agreement included language notifying the sub recipient of their responsibility to comply with OMB audit requirements. However, DOLA does not have a process in place for tracking sub recipient compliance with the OMB requirements, nor are there any procedures for ensuring sub recipients take corrective actions for any audit findings or deficiencies that may impact their sub award.

Criteria: 2 CFR Subpart F sets forth the audit standards associated with non-Federal entities expending Federal awards. 2 CFR 200.501 (f) states, in part, that federal awards expended by sub recipients are subject to audit considerations as defined under Subpart F – Audit Requirements. The subpart further defines (2 CFR 200.505) that noncompliance with audit requirements could result in sanctions as provided in 2 CFR 200.338.

Cause: DOLA does not have any processes in place to monitor sub recipient compliance with 2 CFR Subpart F nor are there any policies in place to implement sanctions for noncompliance.

Effect: DOLA cannot ensure sub recipients are compliant with audit requirements under 2 CFR Subpart F and does not have policies or procedures in place to monitor the compliance, nor to implement sanctions in the event of noncompliance.

Corrective Action: DOLA must develop policies and procedures to ensure sub recipients are compliant with 2 CFR Subpart F – Audit Requirements. The procedures should include possible sanctions or remedies for sub recipients who are either noncompliant with audit requirements or fail to implement corrective actions deemed necessary by the grantee. These should be submitted to HUD within 60-days of the receipt of this report.

Voucher Reviews:

HUD reviewed DRGR voucher payments to the grantee for \$1,189,411 under a number of activities. The sample provided HUD staff with verification that the appropriate levels of authority are reviewing payment requests, requests for funds are fully documented, and are recorded in accordance with program requirements and federal regulations.

Title: Colorado Payments Selected for the CDBG-DR Financial Review

Grant Number# B-12-DS-08-0001	Sum of Vouchers Reviewed
Activity Descriptions:	
Administration	\$ 90,242
Economic Development	664,266
Housing	362,103
Planning	72,800
Grand Total:	\$ 1,189,411

The voucher review included supporting documentation and verification of required approvals by DOLA and its partner agencies. Documentation appeared to be well organized and sufficient to support funds drawn.

Additional Financial Management Requirements:

HUD also reviewed a number of additional federal requirements, including the state’s account and management of program income, indirect costs being charged to the grant, and reporting of data under the Federal Financial Accountability and Transparency Act (FFATA). The state appears to be compliant in all of those areas.

Overall Financial Condition and Technical Assistance:

In addition to the monitoring objectives, HUD provided technical assistance to the State regarding the financial deadlines associated with the P. L. 113-2 appropriation. The appropriation carries an obligation deadline of September 30, 2017. Once funds have been

obligated by HUD, the grantee has 24 months to draw the funds from their line of credit, or must seek an extension from HUD for additional time. As of May 1, 2016, just prior to the monitoring visit, the State had nearly 52% of its approximately \$320 million grant obligated in eight separate rounds as shown below:

Allocation Amount	% Obligated	Obligation Amt.	Disbursement Deadline	Grant Funds Disbursed	% Disbursed
\$320,346,000	51.70%	\$62,800,000	4/29/2016	\$62,800,000	100.00%
		\$28,000,000	11/10/2016	\$7,313,216	26.12%
		\$2,224,694	4/17/2017	\$928,443	41.73%
		\$7,415,173	6/12/2017	\$1,009,171	13.61%
		\$1,000,000	6/12/2017	\$32,915	3.29%
		\$3,636,700	7/20/2017	\$1,425,062	39.19%
		\$24,462,500	12/3/2017	\$0	0%
		\$36,093,971	3/30/2018	\$0	0%

HUD provided technical assistance to the grantee to help them with final voucher and budget adjustments to achieve the disbursement goal for its first obligation round as shown above. DOLA discussed plans for future obligations and reported that they believe they will be able to meet the September 30, 2017 obligation deadline. The grantee continues to show progress and improvement in the management of its multiple rounds of funding.