

U.S. Department of Housing & Urban Development
Denver Regional Office



Monitoring Report
Community Development Block Grant Disaster
Recovery (CDBG-DR)

State of Colorado
B-13-DS-38-0001

Monitoring Dates: July 9 - 13, 2018

OVERVIEW

Monitoring is the principal means by which HUD ensures that programs and technical areas are carried out efficiently, effectively, and that the programs comply with applicable laws and regulations. It assists grantees in improving their performance, developing or increasing capacity and augmenting their management and technical skills. Also, it provides a method for staying abreast of the efficacy of CPD-administered programs and technical areas within the communities HUD programs serve. Monitoring is not limited to a one-time review but is meant to be an ongoing process that assesses the quality of a grantee's performance over a period of time involving continuous communication and evaluation. In determining which grantees will be monitored, the Department uses a risk-based approach to rate grantees, programs and functions, including assessing the Department's exposure to fraud, waste and mismanagement. This process not only assists the Department in determining which grantees to monitor, but also identifies which programs and functions will be reviewed. Areas reviewed may result in the identification of findings, concerns or exemplary practices.

Specifics relating to this review are as follows:

Date(s) Monitoring Conducted: *July 09 - 13, 2018*

Type of Monitoring: *On-site*

HUD Reviewer(s): *Kathleen Beaman, CPD Specialist; Kevin O'Neil, CPD Specialist; Donna Roachford, Sr. CPD Specialist; William Bedford, CPD Specialist; Phyllis Foulds, Financial Analyst; Terrance Ware (lead), CPD Specialist;*

Grantee Staff and
Other Participants: *Irv Halter, Executive Director, Department of Local Affairs (DOLA); Dave Bowman, CDBG-DR Grant Manager; Stephanie Morey, Compliance & Monitoring Specialist; Susanna Larson, DOLA-Agriculture program; KC McFerson, DOLA; Tim Katers, DOLA; Fredda Martinez, DOLA; Susan House, Office of Economic Development & International Trade (OEDIT); Michael Farley, Compliance Officer, DOLA; Alison O'Kelly, DOLA – Division of Housing (DOH); Kathy Fedler, Boulder County Collaborative; Jo Barios, Department of Homeland Security (DHSEM); LaVerne Mathews, DOLA; Mark Skinner, OEDIT; Sarah Rose, DHSEM; Kyndra Daniels, Boulder County Collaborative; Yindse Che, DOLA; Michael Henry, DHSEM; Stephanie Casias, DOLA; Natrece Bryant, DOLA; Rebecca Ballast, DOLA*

Entrance Conference:

Date
Representatives

July 9, 2018
Irv Halter; Dave Bowman; Rebecca Ballast; Natrece Bryant; Kyndra Daniels; Tim Katers; Susanna Larson; Fredda Martinez; Susan House; Michael Farley; Kathy Fedler; Susan House; Alison O'Kelly; Susan Larson; K.C. McFerson; Stephanie Morey; Sarah Rose; Mark Skinner

Exit Conference:

Date
Representatives

July 13, 2018
Irv Halter; Dave Bowman; Rebecca Ballast; Natrece Bryant; Stephanie Casias; Yindse Che; Michael Henry; Tim Katers; Susanna Larson; Fredda Martinez; Susan House; Michael Farley; Kathy Fedler; Susan House; Alison O'Kelly; Susan Larson; LaVerne Mathews; Stephanie Morey; Sarah Rose; Mark Skinner

SUMMARY OF RESULTS AND CONCLUSIONS

This report details the results of the monitoring review and contains 1 new Finding, 4 Findings from the 2017 monitoring which remain open and 1 new Concern. A Finding is identified as a deficiency in 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 that is not based on a statutory, regulatory or other program requirement but is brought to the grantee's attention. Required corrective actions are identified for all Findings. Recommended actions are identified for Concerns. Findings must be responded to within 60 days of this report. Although the State is not required to respond to a Concern, the State is encouraged in its response to note any actions that has been taken on the identified issue. An exemplary practice is a noteworthy practice or activity being carried out by the grantee and may possibly be duplicated by another grantee.

The Department's grant manager for the State's Community Development Block Grant disaster recovery (CDBG-DR) grant, Mr. Terrance Ware is available to discuss the results of this monitoring report or provide technical assistance, if requested, and can be reached at 303-839-2639 and terrance.l.ware@hud.gov. If the State disagrees with any of HUD's determinations or conclusions in this monitoring report, please address these issues in writing to this Department within 30 days of this report. The State's written communication should explain the reasons for the disagreement along with supporting evidence and documentation. All communication should be sent to the Department of Housing and Urban Development, Community Planning and Development Division, Region VIII, 1670 Broadway, Denver, CO 80202.

SCOPE OF REVIEW

The review evaluated the State of Colorado's CDBG-DR grant performance and compliance. The focus of the review was on housing rehabilitation, reconstruction and new construction; economic revitalization; infrastructure; property acquisition; procurement; overall and financial management.

Monitoring of this program was conducted using the following monitoring Exhibits:

- **Exhibit 6-1** - Guide for Review of Overall Management of CDBG-DR Grants
- **Exhibit 6-2** - Guide for Review of Flood Zone & Floodway Buyouts
- **Exhibit 6-4** - Infrastructure
- **Exhibit 6-5** - Guide for Review of Economic Development
- **Exhibit 6-7** - Guide for Review of Written Agreements
- **Exhibits 6-9, 34-1, 34-2** - Financial Management

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.

Areas Reviewed and Results

OVERALL MANAGEMENT

The Department of Local Affairs (DOLA) administers its grant through a Method of Distribution to six sub-grantees (partner agencies). HUD staff met with Irv Halter, DOLA Executive Director, Dave Bowman, CDBG-DR Director, and Stephanie Morey and Michael Farley, Compliance and Monitoring Specialists, 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) national objective requirements, and the applicable CDBG cap on the use of funds for public services. HUD staff also provided technical assistance on matters concerning the overall management of the grant.

DOLA received \$320,346,000 in funding under Public Law 113-2 for long-term recovery. DOLA is making progress expending funds on its projects. As of August 1, 2018, DOLA has received its full CDBG-DR allocation; obligated funding in the amount of \$238,810,533 or 75%; and has currently expended funds totaling \$187,218,608, or 58.4%.

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

its approved Actions Plans. The State has an approved Action Plan and has completed the necessary grantee certifications. The State also has written agreements with its sub grantees (Partners), a risk analysis and monitoring plan, policies for preventing fraud waste and abuse, and a training plan.

The CDBG-DR Program Director, Dave Bowman, is responsible for the day-to-day administration of the program. He has been in the position for th years. As CDBG-DR Program Director, Mr. Bowman makes recommendations to the Executive Director who ultimately provides direction. The State's CDBG-DR disaster recovery team does not directly supervise its partners, although CDBG-DR staff routinely provides direction to the partners regarding issues of compliance. In the absence of this direct oversight of the State's partner agencies, HUD continues to question if DOLA's CDBG-DR program unit has the appropriate authority to effect change or force actions to occur regarding partner compliance with program requirements.

Reporting and Monitoring

CDBG-DR staff members Stephanie Morey and Michael Farley share duties for compliance and monitoring. HUD reviewed the State's CDBG-DR monitoring plan and noted the apparent level of effort that was put into its development. The plan is detailed and includes the risk analysis used by the State; a monitoring schedule; the frequency of monitoring; areas reviewed; exhibits that are applicable to each review; technical assistance provided; and a monitoring report as well as follow-up for addressing any Findings and Concerns.

HUD staff provided technical assistance to the State on its monitoring of its partners and encouraged the State to continue strengthening its monitoring of its partner's and contractors for program compliance. HUD staff indicated the importance of ensuring that the State, its partners and contractors know that all applicable federal program requirements are delegated to all parties assisting with the administration of CDBG-DR funds. 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, partners and 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 at least six partner 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 the requirements set forth in the March 5, 2014 FR Notice.

Technical Assistance (TA)

HUD staff met with Dave Bowman, Stephanie Morey and Kathy Fedler to provide technical assistance regarding the management and monitoring of the housing activities directed by the City of Longmont for the Boulder County Collaborative. Conversations will continue between DOLA and HUD to discuss methods to help the State strengthen its capacity, particularly as it relates to monitoring in order to meet its goals for the administration of the grant.

Citizen Complaints

During the period from October 2017 through July 2018, the State received 3 fraud complaints. Two did not pertain to the CDBG-DR grant. The third complaint, was regarding a mechanical unit supposedly installed incorrectly - the installation is being re-inspected.

Sub-Grantee/Partner Agreements

Department staff reviewed the sub grantee agreements between the State and its partners. Previously, the Department found that the sub-grantee agreement with the Office of Economic Development and International Traded (OEDIT), did not convey all of the CDBG-DR requirements to its recipients. Technical assistance was provided to the State indicating that all CDBG-DR requirements were included through amendments to existing agreements so that the State and HUD can be confident that the State's partners are cognizant of the requirements and compliant with program requirements.

The State is also advised to continue to review the agreements between its partners and their contractors, to ensure that all program requirements have been appropriately communicated and delegated. The State is advised to ensure that those agreements are also amended, as necessary, to ensure that all program requirements are included.

ECONOMIC REVITALIZATION

The Colorado Office of Economic Development and International Trade (OEDIT) administers the Tourism Marketing Grant on behalf of DOLA. The program provided grants to local non-profit Chamber of Commerce type organizations to produce and deliver additional multi-media marketing products. Tourism grants ranged from \$29,600 to \$149,877. The OEDIT Small Business program funded Operating Capital grants which were used reimburse the beneficiaries, typically in the hospitality sector, for operating costs, including supplies. OEDIT Small Business grants ranged from \$11,566 to \$50,000. The AG Agriculture Business grant program provided assistance to small family farms; for feed, replacement of destroyed equipment, and replacement of lost livestock. The AG grants ranged from \$12,142 to \$150,000.

In June 2014 the Department published a Federal Register Notice approving a State request for a statutory waiver to allow the State to use up to \$500,000 of its CDBG-DR allocation for tourism industry support (78 FR 31970). In November 2015, the Department approved a second State request for a continuation of the waiver, authorizing to the State to use an additional \$768,300 of CDBG-DR for tourism industry support (80 FR 72104). The State's CDBG-DR Action Plan allocates these funds to a Tourism Marketing Grant Program, administered by OEDIT.

The Department reviewed the OEDIT Tourism Grant program and Small Business Working Capital grant program, as well as the Department of Agriculture (AG) Agriculture Business grant program. HUD staff examined policies and procedures for each program, and project files to ensure the State is managing these programs in compliance with the applicable

Federal Register Notices, HUD Regulations, and the State of Colorado program policies. All three grants were primarily used to fund small businesses recovery efforts and local tourism marketing efforts to heal local economies marooned by failed infrastructure and bad press.

Department staff reviewed a total of seven OEDIT Tourism files, ten OEDIT Small Business grant files, and ten AG Agriculture Business grant files. HUD staff used the CDBG-DR Monitoring Exhibit 6-5, *Guide for Review of Economic Development*, to guide this review. The OEDIT Tourism program had one Open Finding from the 2017 Monitoring, which was examined during this monitoring visit as well.

Table 1: Economic Revitalization Program File Review

OEDIT Tourism Grant Program				
	Monitored*	Entity Name	Grant Amount	Dates
	4/25/2018	Estes Park	\$149,877	FY 2014 & 2015
	4/25/2018	Colorado Springs Convention & Visitors Bureau	\$50,000	FY 2014
	4/25/2018	Logan County Chamber of Commerce	\$35,000	Feb. to August 2015
	4/27/2018	Lyons Area C of C	\$140,000	Aug. 2014 to April 2016
	4/25/2018	Manitou C of C	\$59,600	Calendar Year 2015
	4/25/2018	Milliken Business Assoc.	\$29,600	June to Oct 2015
	4/27/2018	Nederland	\$35,923	Feb. to Sept. 2015
*Date of Monitoring Report				
OEDIT Small Business Grants				
Round	Agency File ID	Entity Name	Grant Amount	Dates
1	EDGL-01-000525	Mona Lisa Restaurant	\$50,000	2014-2017
½	EDGL-01-003569	Mountain Munchies	\$36,132	2014-2017
1	EDGL-01-003541	M-Squared	\$14,381	2014-2017
2	EDGL-02-063484	Mucky Ducky Restaurant & Catering	\$15,349	2014-2016
2	EDGL-01-003600	Pikes Peak Gourmet Popcorn	\$12,613	2014-2016
½	EDGL-01-003454	Riverwalk Chocolate	\$43,595	2014-2016
½	EDGL-01-003473	Stone Cup	\$37,374	2014-2017
½	EDGL-01-003670	Trolley Brokers	\$46,209	2014
½	EDGL-01-003676	Wildwood Inn	\$99,000	2014-2018
1	EDGL-01-000527	Wynbrier Wildlife Gallery	\$11,566	2014-2017
AG Agriculture Business Grant Program				
Round	Agency File ID	Entity Name	Grant Amount	Dates
½	6	Brinks Ranch	\$150,000 UN	Nov. 2014 thru Dec 2016
½	21	Broken Spoke	\$110,000 LMI	Dec 2016 thru Feb. 2018
½	14	Chandler, Darrel and Geraldine	\$150,000 LMI	Dec. 2014 to present
1	63	Clark Family Farm	\$150,000 UN	Jan 2016 thru May 2018
½	12	Desiderata Ranch	\$150,000 UN	Feb 2016 thru June 2018
2	57	Golden Farm LLLP	\$91,528 UN	Oct. 2016 thru June 2018
½	53	Isabelle Farms	\$128,344 LMI	June 2014 thru Jan 2018
1	31	Massey Farms	\$12,142 UN	Jan. 29016 thru June 2018
2	39	Parrish Ranch Conservation Partnership	\$150,000 LMI	June 2014 thru Nov. 2017
½	43	Stiles, Fred and Holly	\$117,047 UN	Sept 2013 thru Nov. 2016

The State has common eligibility requirements for these three programs that effectively enforced the applicable CDBG-DR requirements. All three programs have adequate Policies and Procedures; however, the Agriculture Small Business grant program has excellent Policies and Procedures that are thorough, yet concise. The State reimbursed grant beneficiaries for eligible expenses that were properly documented and in accordance with grant agreements or program requirements. The files contained evidence of Jobs Retained, both before the event and at grant close-out. Some of the AG Small Business beneficiaries were likely under-reporting LMI jobs retained; TA was provided on qualifying jobs as LMI.

Additional TA was provided to OEDIT and AG staff on improving recordkeeping and telling a complete story in the files.

2017 Finding #1: Lack of Written Agreements - CLOSED

The OEDIT Tourism Grant Program had a Finding from the previous year's FY2017 Monitoring. The State Office of Economic Development and International Trade (OEDIT), had disbursed the full amount of Round 1 grant funds but failed to execute a grant agreement with any of the recipients. 24 CFR 570.490(a) requires the State to maintain records necessary to facilitate a review and/or audit of the State's administration of CDBG funds and sufficient to enable HUD to make determinations of overall program compliance. The corrective action required OEDIT to monitor each recipient of Round 1 grant funds to ensure that grant funds were expended in accordance with all federal requirements that would have been in force through executed agreements.

The file review of 100% of the Tourism grant beneficiaries found documentation of this required monitoring. Further, none of the monitoring reports discovered disbursement of funds that were not in accordance with all federal requirements that would have been in force through executed agreements. **This Finding is closed at the date of this letter.**

HOUSING

HUD reviewed the State's Housing Assistance Program (HAP) in the city of Longmont and the Boulder County Collaborative (BCC). HUD staff reviewed 5 files in Longmont, spanning down payment assistance, buyouts, and replacement housing. In addition, HUD staff reviewed 5 files pertaining to BCC's Round 1 and 2 housing assistance program. HUD found the policies and procedures to be adequate and the guidelines specific, detailing how projects are being implemented.

City of Longmont

The City of Longmont received funding from the Department of Local Affairs (DOLA) who manages the CDBG program for the State of Colorado. The City of Longmont is responsible for the direct administration of the program which includes both rehabilitation of housing and mobile home replacement. To be eligible for participation in the program, the applicants must be single family homeowners.

HUD randomly selected 4 files to review, using applicable Federal Register notices, program policy, procedures and guidelines, and the DRGR database to determine if the program was being administered in accordance with all the requirements governing the program. HUD determined that the policies and procedures were adequate and that the guidelines were specific detailing how projects would be implemented. HUD staff also reviewed the monitoring protocol and files to confirm that the city was monitoring the housing program, training program staff and providing technical assistance in accordance with its policies and procedures.

Table 2: Housing Rehabilitation Files Reviewed

Activity Number	Funds Expended	Date of Expenditure
DR-R-2015-027	\$74,140.61	01/12/2018
DR-R-2015-034	\$79,171.26	11/03/2017
DR-R-2015-011	\$60,073.16	11/25/2015
DR-R-2015-051	\$60,962.98	12/08/2017

HUD’s review of the program files indicated that the State was providing adequate oversight to the City of Longmont for the administration of the program. The files evidenced that the State, through emails and on-site training events, passed down CDBG-DR requirements to ensure compliance with the program. The files also evidenced that the City of Longmont staff had participated in training events covering CDBG requirements and cross cutting program requirements, including environmental training, Davis-Bacon Training, Uniform Relocation training, and DRGR training. Copies of the training sign-in sheets were made available for HUD to verify that the training events occurred.

Lastly, as noted in the prior review of the program in July 2017, the Longmont Housing Program files had documentation of program eligibility, national objective compliance, tieback to the 2013 disaster, verification of flood insurance (when applicable), and compliance with Duplication of Benefits (DOB) requirements. The files were very well organized. There were no Findings or Concerns.

Boulder County

HUD followed-up on the Findings made during the July 2017 monitoring review. The State responded to HUD on January 5, 2018 and has begun work on the corrective actions for the Finding. The status is provided below:

2017 Finding #2: Cost Reasonableness - OPEN

In the previous Round 1 project file review, scopes of work prepared by Boulder County during initial housing damage inspection were vague and lacked a specification sheet, and the county appeared to have relied on the contractors’ bid proposals rather than developing independent scopes of work. Furthermore, no documentation existed to show that a price analysis had been completed for items listed on the contractor’s proposal for each rehabilitation project.

The State concurred that the scopes of work evaluated for the Boulder County Housing Rehabilitation Program were not adequately documented. These issues were also identified

during joint monitoring conducted by the DOLA's Disaster Recovery Unit (DRU) and the City of Longmont. Boulder County has jointly developed a corrective action plan with the City of Longmont and the Division of Housing (DOH). The plan included contracting with a third-party vendor to adequately document scopes of work and award determinations. Through this effort Boulder County will validate all awards, provide proper documentation, and repay funds where validation is not available.

Since the corrective action plan has been developed, the County procured a contractor who began the process to adequately document scopes of work and award determinations, verified at the time of the review. The County will provide regular updates to the State and to HUD on the progress of the corrective action. **This Finding remains open.**

2017 Finding #3: Failure to comply with HUD's Lead-Based Paint (LBP) regulations - OPEN

In HUD's prior 2017 monitoring of the housing rehabilitation files, those projects that involved pre-1978 homes should have been evaluated for compliance with HUD's Lead Safe Housing Rule (24 CFR Part 35). CPD Notice 15-07, "Guidance for Charging Pre-Application costs of Homeowners, Businesses, and Other Qualifying Entities to CDBG Disaster Recovery Grants" states that "assistance provided for an applicant's incurred pre-application rehabilitation costs may be exempt from the Lead Safe Housing Rule" if it falls within certain exemptions. One such exemption is for "CDBG-eligible activities that qualify as emergency actions immediately necessary to safeguard against imminent danger to human life, health or safety, or to protect property from further structural damage." However, in at least one file the pre-application rehabilitation work was undertaken after the emergency action of the natural disaster. Also, in at least one other file, although post-application lead rehabilitation work was undertaken, the county documented that the home was exempt from LBP rules.

It appears that county staff assumed that the "emergency action" exemption to the LBP rule applied to homes affected by a natural disaster regardless of when rehabilitation work occurred.

The county is presently reviewing its housing rehabilitation files and has hired a consultant to review and identify all pre-1978 homes that were assisted. In the cases where reimbursement occurred, the county is determining whether the repairs made by homeowners occurred after the emergency action, and providing a LBP screening for homes where appropriate. Going forward, the county is applying LBP screening to all pre-1978 homes that do not meet one of the non-emergency exemptions of 24 CFR 35.115. **This Finding remains open.**

2017 Finding #4: Failure to comply with thresholds for assistance established for the Housing Rehabilitation Program - CLOSED

The county awarded and paid a homeowner \$68,032.09 in assistance for housing rehabilitation. The program's policy states that awards cannot exceed 50 percent of the homes pre-flood value

In accordance with the corrective action required by HUD, DOLA DOH modified the Housing Assistance and Construction Disaster Recovery Program Guidelines with an effective date of October 30, 2017. The modification allows in writing the provision already established in practice for exceptions to the 50% threshold when "rehabilitation is the more practical and fiscally prudent alternative to demolishing and reconstructing or replacing the home." Subsequently, Boulder County modified their CDBG-DR Housing Repair Program Guidelines with an effective date of December 14, 2017, with the qualifier that the City of Longmont (manager of the Boulder County Collaborative allocation) may approve exceptions to the 50% threshold.

The corrective action required the county to identify all its applicant files who received awards that exceeded the established threshold and provide a justification in the file to explain the exception. The county must also have amended its policy and procedures to add language to authorize the program's exception rule. Evidence that the corrective actions had been implemented were to be submitted to the State and to HUD.

A review of the files resulted in verification that there are two households that have exceeded the 50% threshold; one approved by DOH and one approved by the City of Longmont. Documentation of those approvals has been provided to DOLA DRU and files have been updated to include the approval documentation. A sample of the documentation and the revised procedures were provided to HUD for review. Those documents were reviewed by HUD and determined to be adequate as well as the modified housing guidelines. **This Finding is closed at the date of this letter.**

2017 Finding #5: The county's recordkeeping practices were not compliant with CDBG requirements - OPEN

HUD found that the records in the applicant files were not always completed. Some of the documents in the files lacked dates and signatures, and some of the DOB worksheets did not have a "0" next to FEMA, SBA, and insurance to indicate that no assistance was provided by the respective entity. In addition, one of the files reviewed lacked documentation to explain an exception to the program policy for the grant award. These inconsistencies appeared to be systemic as all the files randomly selected for review had documents that were not completed.

24 CFR 570.506 requires recipients of CDBG-DR funding to maintain records necessary to facilitate review and audit by HUD of the counties administration of CDBG-DR funds and to enable HUD to make determinations of overall program compliance.

The State concurred with HUD regarding inconsistent and incomplete recordkeeping. A random sample of files have been reviewed and corrections have been made where information was incomplete. The State is now cognizant of the recordkeeping requirements and will ensure that moving forward, all documents will be filled out completely. **This Finding remains open at the date of this letter.**

The Boulder County Collaborative (BCC) is a collaborative that was formed by county and local governments to manage their CDBG-DR funded housing assistance, infrastructure, and planning programs as a sub-grantee to the State. The City of Longmont was designated by the Collaborative as the fiscal agent and grant manager for all funds allocated to the BCC. The Colorado Department of Local Affairs (DOLA) allocated \$72,370,318 in CDBG-DR funds to the BCC for three programs: household assistance, infrastructure, and planning. Of this, \$56,143,735 was allocated to the infrastructure program which includes the BCC Buyout and Acquisition Program, which was established to remove structures from hazardous locations and aid properties impacted by the September 2013 rain and flooding disaster event. The Collaborative identified Boulder County, Lyons and Jamestown as the eligible applicants under the Buyout and Acquisition program in the BCC Action Plan. HUD reviewed four Buyout and Acquisition project files (one in the Town of Lyons and three in Boulder County), shown in the table below, for eligibility, national objective, and adherence to written policies and procedures.

Table 3: Boulder County Collaborative Buyout and Acquisition Project Files

Subrecipient	Project Name	National Objective	Funds Expended
Town of Lyons	104 5th Street, Lyons, CO	UN	\$680,000.00
Boulder County	123 Pinto Dr., Boulder, CO	UN	\$775,727.00
Boulder County	16679 N St. Vrain, Boulder, CO	UN	\$300,717.00
Boulder County	5008 Fourmile, Boulder, CO	UN	\$316,246.17
TOTAL			\$2,072,690.17

The Department reviewed Boulder County Collaborative’s policies and procedures manual and files for the buyout program. HUD found the policies and procedures to be adequate. Additionally, HUD noted that the BCC program files were well organized and contained data that was consistent with action plans, program policies and procedures, and national objective requirements. The applicant files reviewed included pertinent documentation such as, national objective, final grant award amounts, duplication of benefits (DOB), project tie-back to the storm documentation, and documentation to support that the properties were located in a floodway, floodplain, or Disaster Risk Reduction Area (DRRA). HUD’s monitoring review of the BCC Buyout and Acquisition Program resulted in no Findings and one Concern.

Concern #1: Insufficient Monitoring Although BCC does have monitoring policies and a plan in place, BCC’s subrecipient agreements are not consistent with the monitoring policies. Additionally, in practice, the BCC did not monitor the Town of Lyons consistently with either the subrecipient agreement or the monitoring policies. The monitoring policies outline how often each subrecipient must be monitored based on their risk assessment. Per this assessment, the Town of Lyons was required to have desk monitoring every 6 months and at least one on-site visit. However, the subrecipient agreement includes a monitoring schedule under appendix D that states the projects will be visited within 90 days of the date of this delegation agreement, and then at least every six months until grant close-out. Finally, BCC has only monitored the Town of Lyons once.

Condition: BCC stated in its monitoring policies that subrecipients would be monitored based on the outcomes of the risk assessment. Per the risk assessment for the Town of Lyons, the BCC should have completed a desk monitoring every 6 months and one on-site visit annually. The Town of Lyons was only monitored once in the two years since the program began.

Cause: BCC staff did not confirm that the subrecipient agreements matched the BCC monitoring policies and were not consistently implementing the policies.

Effect: The BCC is in violation of its own policies and subrecipient agreements. Lack of adequate monitoring could put the State and the BCC at risk of noncompliance with administrative, financial and programmatic requirements.

Recommended Corrective Action: BCC should update its subrecipient agreements to reflect the BCC monitoring policies and risk assessment. Additionally, BCC staff and State staff should verify that the BCC monitoring policy is being implemented as it is written. The monitoring policy should be updated to reflect the ongoing desk reviews that BCC staff mentioned they are regularly employing as part of the implementation of this program. **At the time of the monitoring, BCC provided a draft subrecipient agreement that accurately reflected the monitoring policies in place. These agreements will be executed under the Round 3 activities and should resolve the inconsistencies identified.**

Housing Assistance and Construction (Multi-Family Rental Housing New Construction)

DOLA’s Division of Housing (DOHA), administers the Housing Assistance and Construction: Multi-Family Rental Housing New Construction program which provides funding for new construction and rehabilitation of rental projects with more than 8 units. DOLA awards funds to sub-grantees through a rolling application process. HUD staff reviewed the Housing Assistance and Construction Disaster Recovery – Program Guidelines, the Multi-Family Rental Housing New Construction application which contains the regulatory requirements, and one project file. The project file as shown in the table below was reviewed for eligibility, national objective, and adherence to written policies and procedures.

Table 4: Multi-Family Rental Housing New Construction Project Files

Project Name	Project Location	National Objective	Funds Expended
Alkonis Development	245 North 96th Street, Louisville, CO	LMI	\$3,712,431
TOTAL			\$3,712,431

HUD provided DOLA staff technical assistance regarding the Program Guidelines. Specifically, HUD requested DOLA to add a link in the Program Guidelines directing readers to the Multi-Family Rental Housing New Construction application because the specific regulatory requirements for this program are embedded in the application. This will provide clarity for any future reviews of the program. The project files that was reviewed was paper-based and was well organized. There were no Findings or Concerns related to this program.

INFRASTRUCTURE

Recovery Colorado Infrastructure Grant Program

The Recovery Colorado Infrastructure Grant Program is administered by the Colorado Division of Homeland Security and Emergency Management (DHSEM), while a special allocation to the Boulder County Collaborative is administered by the City of Longmont. The activities administered by DHSEM was the focus of the review. The Infrastructure Grant Program grant program provides funding to cities, counties, and non-profit agencies to repair damaged infrastructure from the 2013 floods. Eligible entities apply to DHSEM for their unmet needs relating to infrastructure damage, which was typically the non-Federal share match requirement for FEMA projects (as CDBG-DR funds has the flexibility to be used as the non-Federal share providing that all other requirements are met). The infrastructure grant program was reviewed for consistency with the infrastructure grant program guidelines, the current disaster recovery Action Plan, and CDBG-DR program requirements contained within the applicable Federal Register notices.

A sample of infrastructure activities, shown in Table 5, was pulled from the DRGR system and communicated to DOLA shortly in advance of the monitoring visit. The review included the Adams County - Storm Drainage System, funding the match of a FEMA project, as well as a consultant contracted to assist DHSEM in administering both the FEMA and CDBG-DR funds.

Table 5: Infrastructure Project Files Reviewed

DRGR Activity	Activity Name	Budgeted Amount	Amount Expended
A2-03-INF-INF-N01-LM-P-16-005	Adams County - Storm Drainage System	\$971,603	\$971,603
R1-00-INF-ADC-000-UN-P	Infrastructure Project Delivery	\$927,221	\$927,221

In general, the records reviewed were well documented and organized in a way that facilitated the monitoring. Requests for additional documents were promptly provided, and DHSEM staff was available throughout the monitoring week to answer any questions.

Department review found that activities were being carried out consistent with the action plan, program guidelines, and CDBG-DR requirements. Additionally, documents created by DHSEM to assist subrecipients, comply with recordkeeping requirements and have been shared as best practices with other grantees. DHSEM should continue to implement the infrastructure program and remind its subrecipients with unexpended balances of the expenditure deadlines associated with P.L. 113-2. There were no issues identified in the programmatic review.

While procurement was not the focus of the review, the RFP, executed Contract and invoices for the “Infrastructure Project Delivery” activity were reviewed to ensure the original procurement accounted for the CDBG-DR funding as well as the funds are allocated to the correct grant. The original RFP’s scope of work indicated that the contractor would be responsible in assisting DHSEM for both FEMA and CDBG-DR funding and proceeded to list the grant amounts for each. From the documents reviewed, the invoices were split between the CDBG-DR and FEMA grants and the CDBG-DR invoice included sufficient detail to tie hours worked to a specific activity. There were no issues identified in this limited procurement review.

However, a reporting Finding was identified, relating to DOLA’s entering of information in the DRGR system. The “Infrastructure Project Delivery” activity should not be a stand-alone activity. Instead, project delivery costs should be included as part of the activity that is being delivered. The Financial section of this report contains further guidance on the reporting Finding. Additionally, information on project/activity delivery costs is contained within CPD Notice 13-07, and can be accessed at: <https://www.hudexchange.info/resources/documents/Notice-CPD-13-07-Allocating-Staff-Costs-Program-Administration-Delivery-Costs-CDBG.pdf>

The review resulted in no Findings or Concerns for the infrastructure activity. Sarah Rose, Michael Haney, and the team at the Division of Homeland Security and Emergency Management provided support and greatly aided in the infrastructure monitoring review.

FINANCIAL MANAGEMENT

HUD monitored the State of Colorado’s financial management component of its Disaster Recovery Program during the July 2018 monitoring visit. The grant is managed by the Colorado Department of Local Affairs (DOLA), who provided the HUD Financial Analyst with access to their policies and procedures, in-house financial management system data, and various reports and documentation to assist with the review.

During the previous monitoring visit in July 2017, HUD identified two Concerns and three Findings under its financial management review. During the current visit, HUD found significant system and process improvements, which resolved those prior issues. The details of those improvements are explained below:

Resolution of FY2017 Financial Management Concern #3

DOLA’s policy for recognizing and applying overpayments to subrecipients or programs did not adequately minimize the time between drawdown and use of HUD funds.

During the prior monitoring visit, HUD found that DOLA had overpaid one of the vendors in its housing program. Even though the overpayment was recognized in a timely manner, DOLA held the overpayment until the funds could be applied to new costs within the same program, which did not happen for several weeks. HUD concluded that department did not have sufficient policies and procedures to apply the overpayment to another eligible expense in a timely manner.

Subsequent to the visit, DOLA modified their policies and procedures. Overpaid funds are no longer retained within the same program area under which they were created, but are applied to the next need for grant funding within the grant. The issue has been resolved.

Resolution of FY2017 Financial Management Concern #4

DOLA policy for applying program income was unclear and did not comply with the Federal Register notice regarding program income for PL 113-2 grants.

During the prior monitoring visit, HUD reviewed DOLA's policies for management of program income. Although no program income had been generated at the time, the policies were inconsistent and did not comply with federal regulations.

DOLA has revised its program income policies. The new policy clearly defines how program income will be generated, calculated, tracked, and applied within the grant. The prior Concern is resolved.

FY2017 Financial Management Finding #6 – DOLA policy for advancing funds to subrecipients is unclear and does not allow for verification of timely use of those funds -- CLOSED

Under certain program areas, the grantee advances funds to its subrecipients for working capital or to funds other costs that have been incurred, but not yet paid by the subrecipient. During the visit in 2017, HUD found that the policies for recording and tracking the use of those funds were insufficient. DOLA was not able to ensure timely use of those funds for recovery efforts.

24 CFR 570.489 (c) requires State grantee's to use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the State to units of general local government. States must also have procedures in place, and units of general local government must use these procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities. DOLA was to review and revise its policies, to accurately define the advanced payment process and to ensure that the agency complies with all timeliness requirements.

In the past year, DOLA has modified those policies, and now have clear, well-defined processes in place to track the use of advanced program funds.

- Advances for costs incurred: Subrecipients may receive grant funds for costs incurred by not yet paid. Under the new policy, the subrecipient must process payments within five days of fund advancement, and provide evidence to DOLA;
- Working capital advance: grant funds may be paid to subrecipients up to thirty days in advance for payroll or fifteen days in advance for non-payroll expenses. Under the new policy, the subrecipient must provide proof of payment of those costs within thirty days of their actual expenditure.

DOLA also provided documentation of its tracking process to ensure compliance with the new policies. **This Finding is closed at the date of this letter.**

FY2017 Financial Management Finding #7 – DOLA does not perform required biannual payroll certification for staff who are fully dedicated to the CDBG-DR grant program -- CLOSED

OMB requires grantees to maintain a written certification statement, twice a year, to identify all staff members who are fully dedicated to one federally program area.

During the prior visit, HUD determined there were a number of staff members who only worked on the disaster recovery grant, and were fully funded under that program, but there were no certifications on record.

In the current visit, DOLA presented personnel certifications for the past six-month period, and HUD reviewed department policies for preparing those statements going forward. All appear complete with appropriate certification language. The Finding is closed.

FY2017 Financial Management Finding #8 – DOLA’s method for determining whether or not a subrecipient has met the 2 CFR 200 single audit threshold in not sufficient -- CLOSED

Non-federal entities that expend \$750,000 or more of federal funds in a fiscal year are required to have a single audit. Grantees are responsible for ensuring their subrecipients comply with that requirement and must follow up to ensure any corrective actions required under the audit are implemented.

During the 2017 monitoring visit, HUD reviewed DOLA’s processes for tracking subrecipient single audit compliance. At that time, the department’s policies were not sufficient to identify all subrecipients that could be subject to the single audit requirement.

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 subrecipients are subject to audit considerations as defined under Subpart F – Audit Requirements. 2 CFR 200.505 further defines that noncompliance with audit requirements could result in sanctions as provided in 2 CFR 200.338. A non-federal agency is required to have a single audit when they have expended at least \$750,000 of federal funds in a fiscal year.

Subsequent to the previous monitoring visit, DOLA has updated its policies and procedures for tracking subrecipient audit compliance. All subrecipients are now required to notify DOLA if they have met the federal expenditure audit threshold in the prior fiscal year. Subrecipient single audits are received and reviewed by the department in a timely manner.

HUD reviewed the new policies, along with the grantee’s subrecipient audit tracking report. The new comprehensive policies should adequately identify all subrecipients that meet the criteria for single audits, and the department is doing a good job to ensure subrecipients implement corrective actions in a timely manner. **This Finding is closed at the date of this letter.**

Internal Controls

HUD reviewed DOLA’s policies and procedures and interviewed financial management staff to evaluate the internal controls in place for the disaster recovery program. The Disaster Recovery team continues to practice strong internal controls over the state’s disaster recovery grant funds and has implemented significant improvements since the last HUD visit. The department continues to apply multiple levels of review and approval of grant funded financial transactions and maintains a separate chart of accounts for the DR funds, which allows the grantee to manage the amount of funds budgeted, obligated, and disbursed against specific recovery activities, as well as track remaining balances.

HUD also reviewed current organizational charts for the Disaster Recovery Unit (DRU) as well as the financial management team. Both charts provide a clear chain of command, separation of duties, and financial management oversight consistent with the division’s financial policies and procedures.

Financial Management Systems and Voucher Review

DOLA uses the Colorado Operations Resource Engine (CORE) to manage their disaster recovery funds. The system is an in-house database that allows DOLA to budget funds, and track obligations, expenditures, and remaining balances. CORE also serves as a records management tool in which source documents are uploaded in support of vendor costs, subrecipient reimbursement requests, and payroll transactions.

CORE requires the Disaster Recovery Unit’s financial staff to complete a series of system-prompted review and approval steps for each expenditure. DOLA uses expenditure data from CORE to generate and submit voucher requests to HUD through the Disaster Recovery Grant Reporting (DRGR) system as well as accounts payable information for the Accounting and Financial Services (AFS) staff to process subrecipient and vendor payments. The simultaneous processing of DRGR vouchers and accounts payable transactions ensures prompt expenditure of grant funds in accordance with federal requirements.

During the monitoring visit, HUD reviewed supporting documentation from CORE to review a sample of 11 DRGR voucher items totaling approximately \$1.5 million in grant expenditures. All costs were fully documented, and system records showed staff review and approvals consistent with the grantee’s policies and procedures. A summary of the items reviewed is provided below:

Table 6: State of Colorado DRGR Vouchers Selected for the CDBG-DR Financial Review

Grant Number# B-13-DS-08-0001	
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Activity Descriptions:	Sum of Vouchers Reviewed
Administration	\$ 72,697
Economic Development & Agriculture Grants	180,235
Housing	950,931
Infrastructure	256,462
Planning	10,491
Grand Total:	\$ 1,470,816

DRGR Reporting and Budget Management

Disaster recovery grantees must budget and manage their grant funds under an Action Plan that is recorded in DRGR. Grantees access grant funds from their Line of Credit (LOCCS) by submitting vouchers in DRGR and must also submit Quarterly Performance Reports (QPR) through the online system. QPRs are due thirty days after the end of each calendar quarter. HUD reviewed the grantee's QPR submission record, as well as the structure and content of the DRGR Action Plan. The grantee has a record of timely QPR submissions however, the DRGR Action Plan does not properly identify some of the grant funds. The inaccurate classification of some grant funds results in the following financial management Finding:

Financial Management Finding #1 – DOLA has developed a DRGR Action Plan that includes activities identified as Project Delivery, which is not an appropriate classification of grant funds. Failure to properly identify, budget and report the use of those grant funds results in inaccurate DRGR financial reporting by the grantee.

Condition: During the review of the grantee's DRGR Action Plan, HUD identified more than two dozen DRGR activities totaling approximately \$6.5 million that were defined as Project Delivery. Each activity title indicated the program area under which the funds were applied but did not always associate with one specific disaster recovery activity. Project Delivery costs are an eligible use of grant funds but cannot achieve a national objective or accomplish recovery goals independent of other program funding and therefore, should not be budgeted under a separate DRGR activity.

Criteria: The March 5, 2013 Federal Register Notice requires grantees to enter information in the DRGR system in sufficient detail to permit the Department's review of grantee performance on a quarterly basis and to enable remote review of grantee data to allow HUD to assess compliance and risk. All grant funds, except those budgeted for grant administration or planning activities, must accomplish a specific recovery goal and meet one of the three National Objectives (Low/Mod; Urgent Need; Slum/Blight), as described in 24 CFR 570.208.

Cause: Project Delivery costs contribute to achieving the national objective for the activity under which they apply. However, Project Delivery alone does not accomplish disaster recovery without the other program costs and therefore, should not be budgeted under separate DRGR activities. By budgeting Project Delivery under separate DRGR

activities, the grantee is under-reporting the true cost of some activities. In some instances, the Project Delivery activities appear to support multiple recovery projects, and the costs should actually be distributed among multiple other activities. In those cases, having a single Project Delivery activity not only doesn't fully represent the cost of the recovery activity, is also does not allow the grantee the opportunity to properly allocate the costs across individual recovery activities.

Effect: Financial reporting in DRGR is not accurate, which means DOLA is not compliant with the requirements under the March 5, 2013 Federal Register Notice. This inaccurate data does not properly identify the use of grant funds by including some costs that do not achieve a national objective on their own, as well as under-reporting the actual cost of certain disaster recovery projects.

Corrective Action: DOLA must make corrections to the DRGR Action Plan so that project delivery costs are included in the activities under which the funds apply.

Single Audit Compliance

2 CFR 200.501 requires nonfederal agencies that expend at least \$750,000 in federal funds in a fiscal year to have a single or program-specific audit conducted within nine months of the fiscal year end. The State and several of its subrecipient partners under the PL 113-2 Disaster Recovery program have met the audit threshold this past year. HUD reviewed the State's Single Audit for fiscal year ending June 30, 2017. There were no material weaknesses or deficiencies identified in the audit.

Single Audit requirements are also imposed on subrecipients who meet the \$750,000 expenditure threshold. The grantee is responsible for tracking subrecipient compliance and ensuring that all corrective actions regarding the grant funds are implemented. DOLA's Financial Compliance Specialist is responsible for tracking subrecipient audits, ensuring compliance, monitoring corrective action implementation, and imposing sanctions when needed. HUD reviewed the subrecipient single audit tracking process and found significant improvements to the process since the previous visit. All subrecipients were compliant and there were no significant issues noted in any of their single audits.

Overall Financial Condition and Technical Assistance

HUD continues to work closely with DOLA to help the grantee achieve the disbursement requirements established under P. L. 113-2. Under the appropriation, HUD obligated the full grant award of approximately \$320 million to the state under eleven separate grant agreements (also referred to as Obligation Rounds). Each Obligation Round must be fully drawn by the grantee within 24 months of the date on which the funds were obligated. The grantee may request an extension from HUD for additional time to expend specific funds within each obligation.

As of July 1, 2018, the state had drawn nearly \$189 million, approximately 60% of the total grant amount. DOLA had met the disbursement deadlines associated with all non-

extended funds under its first eight obligations and was on track to meet the next scheduled disbursement deadline of September 20, 2018.

HUD is working with the grantee to complete a series of budget adjustments to align the funds budgeted in the DRGR Action Plan with each of the individual obligation rounds and is prepared to assist the grantee in securing an extension for later disbursement deadlines as needed.

CONCLUSION

This report details the results of the monitoring review and contains 1 new Finding, 4 prior Findings which remain open and 1 new Concern. Required corrective actions are identified for all Findings. Recommended actions are identified for Concerns. Findings must be responded to within 60 days of this report. Although the State is not required to respond to a Concern, the State is encouraged in its response to note any actions that has been taken on the identified issue.