December 23, 2019

Alexis Podesta, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Alexis Podesta,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Housing and Community Development submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Lauren Carpio, Enterprise Risk Management Officer, at (916) 263-3531, Lauren.Carpio@hcd.ca.gov.

GOVERNANCE

Mission and Strategic Plan

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

Mission

Promote safe, affordable homes and strong vibrant communities throughout California.

Vision

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

Strategic Goals and Objectives

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

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

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

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

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

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

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

- Encourage innovation through intelligent risk-taking.
- Provide training and opportunities to develop and apply new skills and embrace professional excellence for continuous self-improvement.
- Enhance the recognition of employees for their contributions.
- Develop leadership and mentoring programs and succession plans at all levels to strengthen career development opportunities and ladders.
- Consciously develop divrerse teams and leaders to maximize creative solutions.

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

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

Core Business Functions

HCD is organized around three operational divisions that provide the core business functions through which HCD accomplishes its mission. The divisions are:

- Housing Policy Development
- Financial Assistance
- Codes and Standards

These divisions are primarily supported by the Administration and Management Division.

Division of Housing Policy Development (HPD)

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

Division of Financial Assistance (DFA)

DFA administers approximately 15 programs, both State and federal, that award loans and grants for the construction, acquisition, rehabilitation, and preservation of affordable rental and ownership housing, homeless shelters and transitional housing, public facilities and infrastructure, and the development of jobs for lower-income workers. Additionally, some awards are for projects that reduce greenhouse gas emissions and make public transit more accessible to lower-income populations. All loans and grants are made to local public agencies, non- and for- profit housing developers, or service providers. DFA also prepares and submits the federal Consolidated Planning and Performance Report, which is required by U.S. Department of Housing and Urban Development (HUD) to ensure California's receipt of millions in federal housing and community development dollars.

Division of Codes and Standards (C&S)

C&S' mission is to provide protection for the public in areas of health, safety, and general welfare in buildings and structures designed for human occupancy through the enforcement of the California Health and Safety Code, including:

   • State Housing Law
   • Employee Housing Act
   • Mobilehome Parks Act
   • Special Occupancy Parks Act
   • California Factory-Built Housing Law
   • Mobilehome/Manufactured Housing Act of 1980

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

Administration and Management Division (AMD)

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

   • Accounting Office
   • Business & Contract Services Branch
   • Fiscal Management Office
   • Information Technology Branch
   • Human Resources Branch

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

Manual, State Contracting Manual, Budget Letters, etc.)

Control Environment

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

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

HCD's oversight and organizational structure is documented in the HCD Strategic Governance Charter. The purpose of the charter is to clarify and integrate the structures, roles, responsibilities, and rhythms for the leaders across HCD to collaborate efficiently on department-wide goals, initiatives, policies, and issues. The governance entities create the structure for how the leadership members can contribute on department-wide efforts in a manner than engages the right people, on the right topics, at the right time. HCD distinguishes between two types of leadership teams: vertical and horizontal. Vertical leadership describes the responsibility to ensure the unique divisions, programs, and functions plan and execute effectively. Horizontal leadership describes the responsibility to ensure collaboration across our plans and implementations on department-wide goals and priorities. The major governance entities are as follows:

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

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

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

- Evaluating and assuring that the internal audit function is meeting the performance standards included in the Internal Audit Acitivity Charter.
- Engaging deputies on performance accountability and in maintaining adequate operational internal controls.
- Overseeing the preparation, presentation, and integrity of HCD's financial statements and financial reporting processes, policies, and practices.
- Overseeing HCD's internal accounting systems, enterprise risk management initiatives, and financial and operational controls.
- Monitoring HCD's compliance with legal, ethical, and regulatory requirements.

Information and Communication

HCD strives to reduce risks in our work through ongoing monitoring. The Department issues enterprise-wide emails, memorandums, and individually tailored meetings to address vulnerabilities and resolve issues before they have the potential to advance. Staff receive information vital to the effectiveness and efficiency of established internal controls by routinely scheduling meetings and other communication forums.

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

MONITORING

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

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

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

Additionally, HCD's Audits and Evaluation Division houses the Internal Audits and Enterprise Risk Units. The Internal Audits Unit shares audit reports to assist the department in developing internal controls and monitors the ongoing status of audit findings to implementation. The Enterprise Risk Unit promotes the consistent use of risk management to build a more risk-aware culture and leads the department's process for identifying, analyzing, and monitoring key risks through mitigation.

RISK ASSESSMENT PROCESS

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

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

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

Risk Identification

- Divisional Plan Summit: HCD's Deputy Directors presented their enterprise risks during an executive team meeting.
- Questionnaires: Distributed a risk assessment questionnaire for each division to evaluate and assess business processes and threats to goals and objectives.
- Meetings: The Enterprise Risk Officer in the Audits and Evaluation Division engaged with executive and middle managers to brainstorm and discuss questionnaire results, risk rankings, and the internal control environment.
- Prior Audit Reports: The Enterprise Risk Officer encouraged executive and middle managers to consider various factors, including prior audit findings.

Risk Ranking

- Evaluated the results of the risk and threat assessments.
- Conducted a thorough analysis of the probability, likelihood, and impact of each risk.
- Determined the ranking of each risk based on probability, likelihood, and impact analysis.
- Compilation of all departmental risks were presented to the Senior Leadership Team, who provided final determination of HCD's risks and mitigating controls provided in this report.

RISKS AND CONTROLS

Risk: Departmental Data Integrity and Fi$Cal

The complexity of the Fi$Cal system increases the potential for errors, omissions, and inefficiencies which impacts the Department's ability to perform key business functions. HCD is not yet fully functional with Fi$Cal systems. Many Fi$Cal functions did not align with the legacy system (CALSTARS), and HCD's Consolidated Automated Program Enterprise System (CAPES), resulting in the need to continue running parallel systems causing additional workload and diverting resources from other administrative tasks. There is a potential compliance risk in meeting federal reporting requirements and reputational risk if inefficiencies from Fi$Cal produce inaccurate data that could negatively impact customers and stakeholders.

Control: Ensure consistent data between Fi$Cal and HCD Enterprise Systems

HCD will continue to work with Fi$Cal support staff to ensure proper functionality of Fi$Cal and is hopeful that many of these internal control issues will diminish as staff competency grows. Fi$Cal support sessions and coordination with Fi$Cal's Readiness Coordinator in arranging one-on-one meetings with Fi$Cal subject matter experts will also continue to be used as needed.

Control: Fi$Cal Consultant

In September 2019, HCD hired a consultant through June 30, 2020 to assist with functionality of Fi$Cal system. The consultant will evaluate enterprise and statewide financial systems and provide technical support and assistance with Fi$Cal implementation and report writing and generation. The consultant will build financial reports that can be downloaded periodically from Fi$Cal by the Fiscal Management Branch to complete its routine workload related to expenditure projections, budget allotments, forecasting, bond reporting, and fund reconcilitiation. The consultant will provide similar services to the HCD Accounting Office to develop routine reports and improve systems, as well as aide in the training and development of procedures to produce such reports. Having a Fi$Cal consultant will help HCD improve systems and processes related to Fi$Cal and implement strategic solutions for Fi$Cal utilization.

Risk: Outdated Fee Structure and Declining Revenue

The Division of Codes and Standards (C&S) has an outdated and inadequate fee structure. C&S performed a workload analysis of field operations which identified a resources gap of 17 District Representatives (DRs), leaving limited resources to meet statutory requirements for mobilehome inspections. DRs act as construction code inspectors and conduct a variety of inspections including code compliance of manufactured housing, mobilehomes, and commercial modulars. WIthout an updated fee structure, C&S is unable to perform these inspections, risking the public health of residents and potential displacement.

Control: Division Wide Fee Increase

C&S will propose a division wide fee increase to align fees and services to create long term revenue stability and an equitable fee structure for C&S' customers. If a fee increase is approved, once implemented, it would provide additional resources to strategically invest in internal resources

to better provide services to our customers. C&S will also continue to submit Budget Change Proposals (BCPs) to hire additional inspectors to meet customers demands and recruit more effectively by updating the DR I/II exams and the process by which exams are completed. Additionally, Human Resources will continue to attend Careers Fairs to hire for positions across the department.

Risk: Lack of Policies and Procedures

Key divisions within HCD lack policies and procedure manuals for critical services. A number of functional realignments, high turnover, and limited staff have been the main cause of the inability to establish policies and manuals, which makes it difficult to create a basis in which to monitor operations, interdependecies, risks, and controls which can help identify gaps and improvement opportunities. Divisions are having to withstand change without foundational roadmaps for day-to-day operations and are unable to monitor impact when trying to streamline internal processes. This affects HCD's ability to cultivate excellent systems, operations, and processes that provide the highest and best use of our resources.

Control: Business Process Documentation Consultants

HCD plans to hire consultants to assist the deparmtent in many areas including Business Process Documentation. Divisions that have the highest need for policies and procedure manuals will engage with the consultants to train and develop employees to focus on a "we" mentality to promote the passing of institutional knowledge related to processes.

Control: Special Project Teams

The Division of Financial Assistance (DFA) plans to identify Special Project Managers internally to lead the efforts in establishing policies and procedures. Two limited-term staff positions will be allocated to the division specifically to address the need thus far. DFA is in the planning stages of developing a plan to prioritize operations that lack documented policies and procedures. Staff will work with subject matter experts to develop documents and treat them as living management tools, reviewing them on an ongoing basis to monitor and understand organizational changes to cultivate a culture of excellence.

Risk: Workforce/Succession Planning

With delegated authority and additional funding through the annual budget, HCD oversees a number of grants and funding, policy and research, and manufactured and mobilehome programs to promote safe, affordable homes throughout California. HCD's mission rests on the organization's access to knowledgeable and skilled employees. The operational risk is being unprepared for successors to step in and fill in key roles, or having undeveloped leaders not fully ready to take on key roles has a high consequence of error. The lack of an updated Workforce and Succesion Plan reflecting the funding allocated to HCD in 2019 hinders the department's ability to develop candidates for key leadership roles and identify current and future gaps between current and future workforce. Additionally, certain classifications within the department require a high degree of knowledge and experience but compete with external positions that have more attractive pay. HCD runs the risk of not having the ability to recruit and retain a highly-qualified workforce.

The impacts include increase in vacancy rates and/or length of vacancy, undeveloped leaders that are not able to readily step into key roles, internal talent leaving the department, and external hires not acclimating or properly integrating into the organization.

Control: Outreach and Succession Planning

Human Resources will attend outreach events to recruit highly-skilled individuals and strives to strategically invest in internal resources by effectively recruiting, hiring, and retaining a diverse workforce while also monitoring the vacancy rate. HCD has made it a priority to develop a plan that identifies and develops future leaders and determines at-risk areas where knowledge transfer needs to occur. This project will help Executive and Senior level management make data driven decisions that will optimize the availability of critical talent to ensure HCD is effectively recruiting and onboarding an expanded and diverse workforce. HCD continues to offer flexible work schedules as an incentive for well qualified candidates and will increase administrative controls, which include well-developed onboarding processes and cross-training.

Control: Process Improvement Efforts

HCD is focusing on changes in operational improvements by streamlining processes using the current staff and resources. The Organizational Development and Strategic Planning (ODSP) unit housed in the Audits and Evaluation (A&E) Division is charged with establishing business process innovation pilot teams and promoting change management strategies and tactics. These efforts will create a more efficient and experienced workforce while decreasing the impact of filling key roles and the rate at which we are able to fill them.

CONCLUSION

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

Doug McCauley, Acting Director

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