

Emergency Solutions Grants (ESG)

Monitoring Policies and Procedures



I. Overview

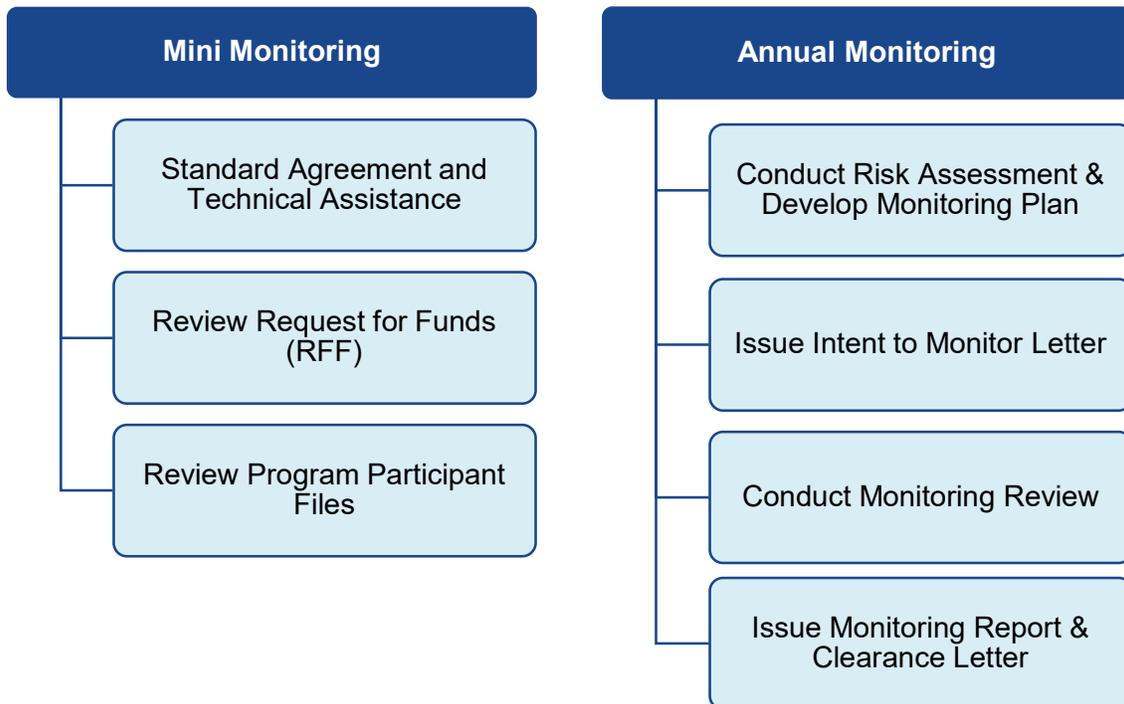
A. Purpose

This document provides subrecipients with an overview of the monitoring policy and procedures for the Department of Housing and Community Development's (HCD), Emergency Solutions Grants (ESG) program. The purpose of these policies and procedures is to provide tools and resources to monitor the ESG program in a uniform, effective, and compliant manner.

B. Background

HCD is responsible for ensuring that its subrecipients comply with all regulations and requirements governing the administrative, programmatic, and financial management of ESG funds. Monitoring is the primary tool HCD uses to ensure that ESG activities are being carried out in accordance with applicable federal requirements.

Monitoring is not restricted to a one-time event but is rather an ongoing process beginning with eligibility review and concluding with grant closeout. To ensure full compliance with the regulations, HCD takes a proactive approach to monitoring ESG funded activities carried out by subrecipients. This includes mini monitoring and comprehensive annual monitoring, that involve multiple tasks throughout the grant cycle as shown in the following chart.



C. Policy

HCD shall conduct a mini monitoring review of each ESG subrecipient upon submittal of their Request for Funds (RFF), which should occur monthly or, at minimum, once per quarter. In addition, all high risk subrecipients will be subject to comprehensive annual monitoring.

II. Risk Assessment and Monitoring Plan

HCD is responsible for monitoring all ESG activities on an annual basis. The level of monitoring is dependent on the risk designation of each subrecipient.

Subrecipient Risk Designation	
Risk Designation	Monitoring Strategy and Frequency
Low Risk Subrecipients	Mini monitoring: quarterly (at minimum)
High Risk Subrecipients	Mini monitoring: quarterly (at minimum)
	Comprehensive monitoring: annually

To determine each subrecipient's risk designation, HCD shall update the ESG *Subrecipient Risk Assessment* each year on or before January 30th. The risk assessment document is used to conduct the risk analysis for all subrecipients being funded with ESG funds. The results of the risk analysis are used to inform the ESG Monitoring Plan which outlines the level of monitoring that will be required for each subrecipient. HCD is responsible for following and implementing the monitoring process in accordance with the results of the risk analysis, Monitoring Plan, and these policies and procedures.

Risk Assessment

The Risk Assessment will be completed by utilizing information contained in the following key documents:

- Previous monitoring reports
- Request for Funds (RFF)
- Annual Performance Report (APR)
- Application for funding; and
- Standard Agreement, including scope of work and budget.

HCD shall use any combination of these items, plus any additional tools that assist them in providing a clear and timely assessment of each subrecipient's progress and level of compliance with program regulations.

The risk factors used include the following areas:

- Grant Management
 - Subrecipient Reporting
 - Subrecipient Staff Capacity
 - Program Complexity
 - Subrecipient Findings and Sanctions (Monetary and OIG)
 - Subrecipient Cross-Cutting Requirement Compliance
- Financial Management
 - Staff Capacity for Financial Compliance
 - Grant Amount
 - Subrecipient Single Audits
 - Program Administration Cap
 - Expenditure Requirements
- Services and Satisfaction
 - Subrecipient Citizen Complaints or Negative Media Exposure
 - Subrecipient Responsiveness
 - Meeting Program Objectives
 - Homelessness Prevention / Rapid Re-Housing
 - Street Outreach / Emergency Shelter
- Physical
 - Physical Condition of Emergency Shelters

Monitoring Plan

The Monitoring Plan outlines the results of the risk assessment, including those subrecipients determined to be high risk and subject to comprehensive annual monitoring.

High Risk Subrecipients

There are three (3) progressive approaches to addressing subrecipients identified as high risk, including early intervention, intervention for more serious or persistent problems, and finally, the imposition of sanctions.

- Early intervention involves any combination of the following measures:

- The development of strategies with the subrecipient that include additional training and technical assistance; and/or
- Requiring more frequent and/or more thorough reporting by the subrecipient; or
- Conducting more frequent comprehensive annual monitoring reviews.
- Intervention for more serious or persistent problems may include:
 - Placing restrictions on the subrecipient's request for funds (RFF); and/or
 - Incorporating additional restrictions in the standard agreement such as requiring approval prior to purchasing goods or providing services to clients.
- Imposition of sanctions for non-compliant subrecipients may include:
 - Disallowance of ineligible costs incurred; and/or
 - HCD recapture of ESG funds; and/or
 - Termination of contract.

Conducting Risk Assessment and Prepare Monitoring Plan

1. Each year ESG will conduct a risk analysis using the Risk Assessment.
2. Determine the overall risk level of each subrecipient.
3. Identify the high risk subrecipients that will be subject to comprehensive annual monitoring.
4. Finalize the ESG Monitoring Plan that will be conducted during the upcoming calendar year.

III. Mini Monitoring

Mini Monitoring consists of regularly reviewing subrecipient's financial reports, expenditure milestones, and Standard Agreements as a means of tracking program performance. Review of supporting documentation during the mini monitoring process will demonstrate to HUD that HCD is actively engaged in compliance monitoring throughout the grant lifecycle. This process also serves to inform HCD of each subrecipient's strengths and weaknesses, which assists in selecting the regulatory area to be examined further during the comprehensive annual monitoring review.

Mini Monitoring will be conducted on each Request for Funds (RFF) and will consist of review of all line items for eligibility, record keeping, proper allocation of ESG funds and financial compliance.

An RFF should be submitted by each subrecipient on a monthly basis or, at minimum, once per quarter.

Upon receipt of each RFF, HCD staff will review and conduct monitoring of a representative selection of line-items from the accompanying Detailed Expense Report (DER). The purpose of this review is to assess the financial management system of each subrecipient as well as their capacity to adequately support their expenditures with complete and accurate source documentation. In addition, ESG program file review will be conducted to ensure compliance with both state and federal program regulations and guidelines.

The purpose of this review is to assess each subrecipient's capacity to implement the program and document the eligibility of each program participant as well as the level and forms of assistance provided. Should issues arise during the client file review, the assigned Program Representative has the option to request additional participant files for further review.

Mini Monitoring Requirements:

1. 1st RFF – Will require all backup and supporting documentation as it relates to all line items on the DER.
2. All subsequent RFFs will require submission of backup and supporting documents for a representative number of line items from each spending category.
3. Full client files must be provided for spending in Rapid Re-Housing and Homelessness Prevention.

IV. Annual Monitoring

The purpose of HCD ESG Annual Monitoring is to ensure that the funds allocated to ESG are used to address homelessness and other related issues. Annual Monitoring is a collaborative effort between the subrecipient and HCD staff. Annual Monitoring involves assessing compliance with the program's regulations, ensuring that funds are spent on eligible activities, and overseeing the performance of subrecipients and contractors. The Annual Monitoring process is crucial for maintaining the integrity of the ESG program and ensuring that the funds are effectively utilized to prevent and address homelessness.

Annual Monitoring Process:

1. Conduct Risk Assessment: Refer to Section II.
2. Development of a Monitoring Plan: Refer to Section II.
3. Annual Monitoring Entrance Conference: The purpose of the entrance conference is to ensure that the subrecipient has a clear understanding of the purpose, scope, and schedule for the monitoring review. In addition, HCD staff will coordinate and determine specific date and time for an annual monitoring conference.

4. **Issue Intent to Monitor Letter:** This is a notice to the subrecipient that HCD will be conducting a monitoring of their organization. The Intent to Monitor Letter will include: Activities to be reviewed, dates and times of the monitoring, scope of the monitoring (i.e., programmatic, financial or both), and documentation requirements.

After sending the Intent to Monitor Letter, the Program Representative shall review the subrecipient's activity file to identify any concerns prior to the monitoring review. Specific records reviewed can include, but are not limited to:

- Application for funding
- Client Files
- Standard Agreement
- Requests for Funds (RFF)
- Annual Performance Reports (APR)
- Correspondence
- Prior monitoring reviews
- Copies of subrecipient's most recent audit

5. **Conduct Monitoring Review:** Programmatic review of subrecipient client files and supporting documentation to assess compliance with state and federal ESG requirements.

Generally, the monitoring review will result in a determination that the subrecipient complied with a given section or that a finding or concern is identified.

- A finding is a condition where the subrecipient has violated an applicable regulatory provision.
- A concern is a condition that is not corrected, may lead to findings, or may result in deficient program performance.

6. **Issue Monitoring Report:** The Monitoring Report will identify findings and concerns, including regulatory citations and references, an identification of the conditions contributing to the finding or concern, and corrective actions to be undertaken by the subrecipient to bring their activity into compliance with the ESG regulations and Standard Agreement.

If deficiencies are identified in the review, through a collaborative process, HCD and the subrecipients will develop a corrective action plan to address and remedy the findings.

At the conclusion of the annual monitoring review, an exit conference will be conducted.

The purpose of the exit conference is to:

- Present the preliminary results of the annual monitoring, including findings that will require additional consultation with HCD in order to close the monitoring review;
- Secure additional information to solidify or resolve any preliminary findings or concerns;
- Provide an opportunity for the subrecipient to correct any misconceptions or misunderstandings;
- Discuss any corrective action plan(s) with the subrecipient;
- Establish timeframes for the resolution of any findings;
- If applicable, provide an opportunity for the subrecipient to report on steps they may already be taking to address areas of non-compliance or under-performance.

7. Issue Clearance Letter: Resolution of deficiencies occurs through the submittal of formal correspondence from the subrecipient in response to the Monitoring Report. Subsequent to the resolution of any monitoring review findings, HCD issues a Monitoring Clearance Letter to formally close the monitoring.

V. Resources

A. Requirements

The following regulations require CA HCD to monitor each ESG funded activity to ensure compliance with applicable Federal requirements and to determine if performance expectations are being achieved.

- [2 CFR 200.329\(a\)](#)
- [2 CFR 200.331](#)
- [2 CFR 200.332\(d\)](#)
- [24 CFR 576.500\(v\)\(1\)](#)