



U.S. Department of Housing and Urban Development
Office of Community Planning and Development
Los Angeles Field Office, Region IX
611 W. 6th Street, Suite 1000
Los Angeles, CA 90017

MAY 05 2016

Mr. Steve Mermell, Interim City Manager
City of Pasadena
ATTN: Randy Mabson
100 North Garfield Avenue
Pasadena, CA 91109

Dear Mr. Mermell:

SUBJECT: Fiscal Year (FY) 2016 On-Site Monitoring:
Community Development Block Grant Program (CDBG)
Continuum of Care Program (CoC)

During March 28 through March 31, 2016 Michael Kovalsky and Jane Wilson, Community Planning and Development (CPD) Representatives, conducted a program review focusing on the following areas: eligibility, national objectives, overall management systems, homeless and at-risk determination/recordkeeping requirements and CoC recipient overall grant management.

The review was accomplished through a review of files, management reports, site visits, and interviews with grantee staff. On April 6, 2016, an exit conference was conducted to present and discuss the results of the review. The review resulted in nine findings and two concerns. Before the conclusion of the monitoring, the City was able to close finding six. Enclosed is a detailed discussion of each finding and concern.

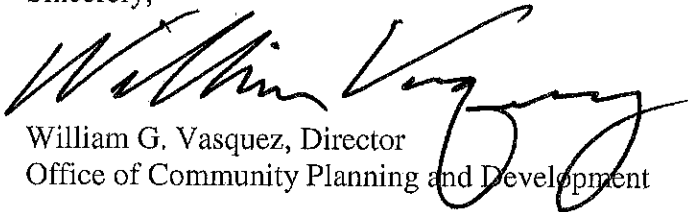
Please note that a finding is defined as a deficiency in program performance based on statutory, regulatory or program requirements for which sanctions or other corrective actions are authorized. A concern is a deficiency in program performance not based on a statutory, regulatory or other program requirement. Sanctions or corrective actions are not authorized for concerns. HUD brings concerns to the Agency's attention and may recommend actions to address concerns and/or provide technical assistance. While concerns do not require a response from your agency, we hope you will take a moment to discuss any concerns we have raised in this report with us.

The City must respond to all findings within 30 days from the date of this letter. Its response must cover the actions taken to correct the findings and include any documentation necessary to show compliance with the corrective actions. If the City wishes to request an

extension to close the findings, it must make its request in writing and include a justification and specific actions the City will take to ensure it will meet the extended deadline.

We greatly appreciate and thank you for the cooperation and assistance provided to HUD staff during their visit. If you or your staff have any questions, please contact your Community Planning and Development Representative, Michael Kovalsky at (213) 534-2566.

Sincerely,



William G. Vasquez, Director
Office of Community Planning and Development

Monitoring Report
Community Development Block Grant Program (CDBG)
Continuum of Care Program (CoC)
City of Pasadena
March 28, 2016 – April 6, 2016

On March 28, 2016, Michael Kovalsky, Community Planning and Development (CPD) Representative, held an entrance conference with William Huang, Director, Anne Lansing, Project Planner and Randy Mabson, Program Coordinator, to summarize the program areas HUD would be reviewing for Pasadena's fiscal year (FY) 2016 monitoring. These areas included: eligibility (CDBG), national objectives (CDBG), overall management systems (CDBG), homeless and at-risk determination/recordkeeping requirements (CoC) and CoC recipient overall grant management (CoC). On April 7, 2016, Michael Kovalsky and Jane Wilson, Senior CPD Representatives and Wayne Itoga, Program Manager, held an exit conference with Steve Mermell, Interim City Manager, Bill Huang, Director, Anne Lansing, Project Planner, James Wong, Senior Project Manager and Randy Mabson, Program Coordinator. During the exit conference, HUD discussed the nine findings and two concerns that resulted from the program review.

Please note that a finding is 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 not based on a statutory, regulatory or other program requirement. Sanctions or corrective actions are not authorized for concerns. HUD brings concerns to the Agency's attention and may recommend actions to address concerns and/or provide technical assistance. While concerns do not require a response from your agency, we hope you will take a moment to discuss any concerns we have raised in this report with us.

Finding One (CDBG): IDIS Activity 1345 failed to meet HUD's Lead Safe Housing Rule (LSHR) at 24 CFR part 35, requirements for homeowner rehabilitation.

Condition: Project file reviews, staff interviews and a review of the City's policies and procedures demonstrated an overall lack of knowledge and non-compliance with 24 CFR part 35. Files did not provide evidence of screening to determine whether the LSHR, Subpart J Rehabilitation, applied or not. City staff conduct the physical construction work on qualifying units. The City is not an EPA Renovation Repair Painting (RRP) Firm and staff conducting repairs and rehabilitation work that disturbs painted surfaces in pre 1978 target housing, are not RRP Renovators or lead-based paint abatement workers. In short, the contractor staff do not possess the requisite qualifications to conduct work on pre 1978 target housing units. Moreover, evidence of lead-based paint risk assessments and paint testing was not found in project files. Evidence of unit clearance testing was not found. Finally, the City's policies and procedures do not meet the requirements of the LSHR.

Criteria: 24 CFR 35.930 – Grantees must either perform paint testing on the painted surfaces to be disturbed or replaced during rehabilitation activities or presume that all these painted surfaces are coated with lead-based paint. Presumption implies that all peeling, chipping, friction/impact and chewable surfaces on the property must be addressed by qualified contractors (RRP Firm and RRP Renovators). The level of testing by a licensed and certified lead-based paint risk assessor/inspector (i.e., paint testing of surfaces to be disturbed or risk assessment and paint testing of surfaces to be disturbed) depends on the amount of the hard cost of the rehabilitation (ref. §35.930). Depending on the results of the paint testing and/or lead-based paint risk assessment, the mitigation of lead-based paint hazards also depends on the amount of hard cost of rehabilitation investment in the project (ref. §35.930). For instance, projects that receive more than \$5,000, up to and including \$25,000 worth of rehabilitation, interim controls must be used to address lead-based paint to be disturbed and lead-based paint hazards on the property (ref. §35.1330). Following interim controls and rehabilitation work, clearance is required per §35.1340.

Cause/Effect: The City did not have policies and procedures in place to ensure compliance with HUD's LSHR. In effect, the City has not been operating its rehabilitation program in compliance with the LSHR and is subject to sanctions.

Corrective Action: The City must immediately cease obligating and/or commencing rehabilitation work on pre 1978 properties. Within 30 days of receipt of this letter, the City must implement the following steps before funding any additional pre 1978 projects under this program:

1. Develop and implement policies and procedures that reflect when and how compliance with the LSHR will occur, as well as who will be responsible for ensuring compliance.
2. Review all IDIS activities under rehabilitation program(s) over the last 5 years and create an inventory of all pre 1978 units assisted, listed by address.
3. The inventory shall identify the amount of rehabilitation assistance and a general scope of work.
4. Identify whether ANY painted surfaces were disturbed and for those that were, whether each was above the de-minimis amount (ref. §35.350(d)).

Following submission of the policies and procedures and inventory data, HUD will work with the City to determine the appropriate response to each property to bring it into compliance with 24 CFR part 35, Subpart J. Such actions will include bringing projects into compliance through testing, mitigation and clearance of lead-based paint hazards in assisted properties.

Finding Two (CDBG): IDIS Activity 1345 did not meet CDBG requirements for homeowner rehabilitation.

Condition: The City's files for its CDBG funded rehabilitation activity exhibited the following deficiencies:

- The name of the City's program (Maintenance, Assistance and Services to Homeowners) and files 2268, 2308 and 2301 indicate that the City's program may be paying for maintenance which is ineligible under the CDBG program.
- The City's procedures indicate that fences are eligible as a standalone rehab activity. Fences are eligible, but only if they are incidental to other major rehabilitation work being carried out. Staff interviews and files illustrated that fences were not rehabilitated as a standalone activity. However, the City's procedures and marketing materials must reflect this.
- The City's files indicate that light bulbs are an eligible cost under their program. While staff interviews indicate that the bulbs and related installation costs were not paid by CDBG, the City's procedures must reflect this.
- Language in the City's guidelines describe that part of the purpose of the activity is to address building and health code violations, but that is inaccurate as City staff indicated that the City does not carry out rehabilitation work on properties that have existing code violations. The City's procedures must reflect the actual purpose of the activity.
- Files did not contain initial, progress or final inspections.
- Files did not contain work write ups or cost estimates.
- Files did not contain a review of cost reasonableness.
- Files did not contain contract with homeowners.
- Files did not contain full documentation of actual costs including materials and staff costs.
- No written procedure in place for changes in the scope of work and/or specifications.

Criteria: HUD monitoring Exhibit 3-10, Guide for Review of CDBG-Funded Rehabilitation Program Management; HUD monitoring Exhibit 3-11, Guide for Review of Individual CDBG-Funded Rehabilitation Activities; 24 CFR 570.202(b) – eligible costs for CDBG funded rehabilitation includes: labor, materials and other costs of rehabilitation of properties, including repair directed toward an accumulation of deferred maintenance, replacement of principal fixtures and components of existing structures, installation of security devices and renovation through alterations, additions to, or enhancement of existing structures and improvements, abatement of asbestos hazards and other contaminants, improvements to increase the efficient use of energy in structures through such means as installation of storm windows and doors, siding, wall and attic insulation, and conversion, modification, or replacement of heating and cooling equipment, including the use of solar energy equipment.

Cause/Effect: The City had inadequate policies and procedures in place to ensure its activity met CDBG requirements. In effect, the City is liable for work that may not meet code. In addition, the City did not fully support the amount drawn for the activity as reported in IDIS because the City's files did not fully document staff and hard costs.

Corrective Action: Prior to funding any new homeowner rehabilitation, the City must modify its program policies and procedures to address all deficiencies noted in this finding. The City's response must indicate where each deficiency above is addressed in

its policies and procedures. In addition, the City must submit documentation that illustrates the following:

- The full amount drawn for IDIS activity 1345 including all staff and hard costs involved. The costs must be organized by each property assisted under the activity.

Finding Three (CDBG): The City's tracking and documentation of staff costs paid with HUD-CPD funds does not meet Federal requirements.

Condition: HUD found that the time and activity detail for staff costs paid with CDBG funds under IDIS activities 1332 and 1336 did not include enough detail on the type of work performed.

Criteria: 2 CFR 200.430 – When documenting staff costs paid by Federal funds, grantees must follow the standards described in this part. Requirements include but are not limited to the following: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated. Grantees must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes.

Cause/Effect: The City was unaware of the level of detail required in order to document staff costs paid by Federal programs. In effect, the City was not properly documenting staff costs for individuals who worked on multiple activities or whose salary was not paid in full by one HUD-CPD funded program.

Corrective Action: The City must submit documentation of a time and activity tracking system which meets the requirements described in this finding. The City must also submit a sample of time and activity documentation from the system and corresponding policies and procedures.

Finding Four (CoC): The City's subrecipient termination policies and procedures did not meet HUD requirements.

Condition: When reviewing termination policies and procedures and participant files for grants CA0658L9D071306 and CA0663L9D071306, it was not clear if participants received complete written program rules or a written termination process before the participant received assistance. In addition, HUD found that the following HUD termination requirements were either missing from the City's subrecipient termination policies and procedures or were unclear:

- Program participant's receipt of written program rules and the termination process before the participant began to receive assistance
- Program participant's receipt of written notice containing a clear statement of the reasons for termination
- A review of the decision, in which the program participant was given the opportunity to present written or oral objections before a person other than the person (or a subordinate of that person) who made or approved the termination decision
- The program participant's receipt of prompt written notice of the final decision

Criteria: 24 CFR 578.91(b) – In terminating assistance to a program participant, the recipient or subrecipient must provide a formal process that recognizes the rights of individuals receiving assistance under the due process of law. This process, at a minimum, must include the criteria listed under the condition of this finding.

Cause/Effect: The City's subrecipients had a lack of knowledge in regard to HUD termination requirements. In effect, participants may not have fully understood why they were terminated or may have been terminated without having been provided minimum rights under the CoC program.

Corrective Action: The City must carry out a review of the termination policies and procedures for all of its subrecipients under its CoC program. For any procedures that do not meet HUD requirements as described above, the City must ensure that they are modified to come into compliance. In order to close this finding, the City must submit 1) a list of all subrecipients funded under its CoC program, 2) the results of its review of all subrecipient termination policies and procedures and 3) in the case where modified policies and procedures were required, a certification from all applicable subrecipients indicating that the modified procedures have been implemented.

Finding Five (CoC): Participant leases did not meet minimum term requirements.

Condition: When reviewing participant leases for grant CA0658L9D071306, HUD found that the lease terms were month to month.

Criteria: 24 CFR 578.51(l) – For project-based, sponsor-based or tenant-based rental assistance, program participants must enter into a lease agreement for a term of at least one year, which is terminable for cause. The leases must be automatically renewable upon expiration for terms that are a minimum of one month long, except on prior notice by either party (2) – Program participants in transitional housing must enter into a lease agreement for a term of at least one month. The lease must be automatically renewable upon expiration, except on prior notice by either party, up to a maximum term of 24 months.

Cause/Effect: The City's subrecipient had a lack of knowledge in regard to HUD lease requirements. In effect, participants may not have been provided the appropriate amount of time to be housed as allowed by the CoC program.

Corrective Action: The City must carry out a review of lease terms for all of its rental assistance projects funded under its CoC program. For any projects that do not meet HUD requirements as described above, the City must ensure that they are modified to come into compliance. In order to close this finding, the City must submit 1) a list of all rental assistance projects funded under its CoC program, 2) the results of its review of lease terms for all applicable projects 3) in the case where modified leases were required, a certification from all applicable subrecipients indicating that the modified leases have been executed and 4) certification from all applicable subrecipients that modified policies and procedures addressing lease terms as described in this finding have been implemented.

Finding Six (CoC): The City did not always document the appropriate verification to show that participants had a disability.

Condition: When reviewing client files for grant CA0662L9D071306, HUD found that some forms to document a participant's disability were not signed by a licensed professional who was qualified to make such a determination.

Criteria: 24 CFR 576.500(b)(4)(iv) – For paragraph (3)(iv) of the homeless definition in §576.2, a written diagnosis is required from a professional who is licensed by the state to diagnose and treat that condition (or intake staff-recorded observation of disability that within 45 days of date of the application for assistance is confirmed by a professional who is licensed by the state to diagnose and treat that condition).

Cause/Effect: The City had insufficient policies and procedures in place to ensure that all disability forms were signed by a licensed professional. In effect, the City was not properly verifying the eligibility of its participants.

Corrective Action: Prior to this monitoring, the City updated its policies and procedures along with the forms it uses to verify that a disability is verified by qualified staff. HUD considers the actions already taken by the grantee to be sufficient to close this finding. No further action is necessary.

Finding Seven (CoC): Incorrect Utility Allowance Calculations

Condition: The utility allowances for the City's participants are calculated and applied using expenses not considered allowable utility costs under the CoC program. The unallowable utility allowances include a credit for resident provided stove, refrigerator and/or microwave.

Criteria: 24 CFR 578.77 requires that program participants on whose behalf rental assistance payments are made must pay a contribution toward rent in accordance with section 3(a)(1) 95 of the U.S. Housing Act of 1937. This part of the act defines utilities for which allowances may be provided to include electricity, natural gas, propane, fuel oil, wood or coal, and water and sewage service, as well as garbage collection which are billed and paid directly by the resident.

Cause/Effect: The City was not aware of the type of utilities allowed under the CoC Program. In effect, the utility allowance calculated exceeds the amount allowed by the program.

Corrective Action: The City must establish policies and procedures that immediately implement a utility allowance that only allows utility costs for electricity, fuel, water, sewer and trash. The City must review the current utility allowances and revise them to be in compliance with regulations. This utility allowance revision must then be applied to all current participants (with the appropriate rent change notice) and all participants going forward from the date of this monitoring report. The City must submit to HUD, the revised policy and procedures along with a certification from the authorized official stating that they have been implemented.

Finding Eight (CoC): The City did not meet CoC timeliness standards.

Condition: HUD found that the City did not always draw funds at least once per quarter.

Criteria: 24 CFR 578.85(c)(3) – A CoC recipient must draw down funds at least once per quarter of the program year, after eligible activities commence.

Cause/Effect: The City has not yet implemented a system to ensure that funds are drawn quarterly. In effect, the City is not meeting its timeliness standards for the CoC program, assistance to homeless individuals may be delayed and the City may be ranked higher during HUD's risk analysis.

Corrective Action: The City must establish and implement policies and procedures which address this requirement and ensure that the City draws on each of its grants at least once per quarter. The City must submit the policies and procedures along with a certification from the authorized official stating that they have been implemented.

Finding Nine (CoC): The City did not collect all required certifications from its subrecipients.

Condition: HUD found that the City did not collect all required certifications from its subrecipients.

Criteria: 24 CFR 578.23(c)(4) – CoC grantees must require certifications from all subrecipients that:

- Maintain the confidentiality of records pertaining to any individual or family that is provided family violence prevention or treatment services through the project
- Establish policies and practices that are consistent with, and do not restrict, the exercise of rights provided by Subtitle B of Title VII of the Act and other laws relating to the provision of educational and related services to individuals and families experiencing homelessness

- The subrecipient, its officers, and employees are not debarred or suspended from doing business with the Federal Government
- Subrecipients will provide information, such as data and reports, as required by HUD

Cause/Effect: The City was unaware of the requirement to collect the certifications cited above. In effect, the City is not following CoC requirements and may not have an extra layer of protection with regard to its subrecipient's compliance.

Corrective Action: The City must establish and implement policies and procedures which address this requirement. The City must submit the policies and procedures along with a certification that they have been implemented. In addition, the City must provide a list of all of its CoC subrecipients and a copy of the signed certifications noted above for each subrecipient.

Concern 1 (CDBG): The City's policies and procedures did not fully address HUD requirements.

Condition: The City's CDBG policies and procedures did not include the following requirements:

- Did not cover all eligible activities
- Did not describe public benefit requirements for economic development activities
- Did not describe presumed benefit categories under the LMC national objective
- Did not explain what exhibits to utilize when monitoring CDBG activities

Cause/Effect: The City's policies and procedures had not been updated to include all of HUD's requirements. In effect, the City may carry out activities that do not meet HUD requirements and may be subject to sanctions.

Recommendation: The City should update its policies and procedures to include all applicable CDBG requirements including the sections described in the condition of this concern.

Concern 2 (CoC): The City did not ensure that all of its documentation and procedures for its CoC funded projects refer to the CoC program.

Condition: While reviewing policies, procedures and project files, HUD found that some documentation referred to programs that preceded the CoC program, such as the Shelter Plus Care Program.

Cause/Effect: Some of the City's participants entered its CoC funded program before the implementation of new CoC requirements and the City did not update the new program name. In effect, City staff, subrecipient staff and program participants may be confused with regard to which program requirements apply.

Recommendation: HUD recommends that the City revise its policies and procedures to reflect the change in the name of the program funding its projects. In addition we

recommend that it ensure this change is also reflected in its subrecipient policies and procedures.

SINGLE AUDIT COMPLIANCE

Audit review consists of an evaluation of the City's performance in fulfilling the audit requirements of the CDBG program in accordance with OMB Circular A-133-200 Audit requirements. The City submitted the appropriate annual audit by LSL CPAs and Advisors for the period covering 2014 to 2015. The City had two findings for which it had taken corrective actions and addressed the underlying conditions.

SECTION 504 REQUIREMENTS

A limited review was conducted to determine if public facilities the City uses to hold meetings met the Section 504 Requirements. Elevators were wide enough for wheelchair access and included brail, parking spaces are available for the disabled, entrance doors are wide enough and open automatically and the bathroom doors, stalls and sinks appear to meet wheelchair and height requirements. The City appears to have met communication and program accessibility requirements.