OFFICE of INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

State of California, 2018 Disasters Owner-Occupied Rehabilitation and Reconstruction Program

Sacramento, CA | 2023-FW-1004

July 13, 2023

Office of Audit | Office of Inspector General
U.S. Department of Housing and Urban Development

To: Tennille S. Parker
Director, Office of Disaster Recovery, DGR

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, Office of Inspector General, GA

Subject: State of California, 2018 Disasters Owner-Occupied Rehabilitation and Reconstruction Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the State of California, 2018 disaster owner-occupied reconstruction and rehabilitation program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call Danita Y. Wade, Audit Director, at 817-978-9309.

Highlights

STATE OF CALIFORNIA, 2018 DISASTERS OWNER-OCCUPIED REHABILITATION AND RECONSTRUCTION PROGRAM | 2023-FW-1004

What We Audited and Why

We selected the State of California's 2018 disasters owner-occupied rehabilitation and reconstruction program to audit after an internal risk assessment of disaster grantees showed the grant was newer and had not yet disbursed the majority of its funding. The State received more than $1 billion for the 2018 disasters. With the frequency of wildfires occurring in California, rebuilding homes for low-to-moderate-income homeowners that incorporates wildfire mitigation protection could help prevent or reduce damage to the homes from future wildfires. In addition, ensuring compliance with duplication of benefits and low-to-moderate-income requirements was essential to assisting qualified homeowners. Our audit objective was to determine what the State is considering and to what extent resilience-based mitigation efforts help homeowners to withstand potential future disasters, along with how the State is prioritizing its efforts in the program to assist qualified low-to-moderate-income beneficiaries.

What We Found

The State's owner-occupied rehabilitation and reconstruction program generally planned for resilience-based mitigation efforts and prioritized its efforts to assist qualified low-to-moderate-income beneficiaries. The State faced some challenges, such as verifying structure type and size and assessing ownership and primary residency, in implementing this program due to it being one of the first housing rehabilitation and reconstruction programs addressing a wildfire disaster. The State's efforts to adjust its program and requirements as it encountered challenges indicates its willingness to address exceptions when known.

What We Recommend

We recommend that the State should ensure that it has proper documentation for compliance with building standards and ownership and primary residence determinations.

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Background and Objective

The State of California experienced four major wildfires in 2018. These wildfires included the Carr, Mendocino Complex, Camp, and Woolsey fires, which burned an estimated 1.6 million acres in the State in mostly rural areas. Of the nine counties affected by these fires, five were disaster-declared counties, and four were considered most impacted and distressed. In those counties, it was estimated that approximately 20,000 residential homes needed to be rebuilt.

According to the State, the total dollar impact for housing was more than $14 billion. After excluding other funding sources, such as Federal Emergency Management Agency, Small Business Administration, and insurance, the unmet need for housing totaled more than $3.2 billion. Of its total grant of more than $1 billion, the State planned to use more than $455 million for housing needs. Of the $455 million, the State planned to use approximately $205 million for owner-occupied rehabilitation and reconstruction.

While this grant did not have a mitigation requirement, the State addressed housing resilience in its action plan. In its action plan, the State discussed the Wildland-Urban Interface Code, which incorporates fire prevention elements into housing construction. The State required homes rebuilt in the owner-occupied rehabilitation and reconstruction program to comply with these standards.

The owner-occupied rehabilitation and reconstruction program focused on those residents who resided in the four most impacted and distressed counties. In three of these counties, about 60-65 percent of the population owned their homes. The fourth county's home ownership rate was approximately 45 percent. The percentage of low-to-moderate-income persons in the burned areas of the four counties was estimated at between 27 and 54 percent.

The State offered two solutions for reconstruction. For solution 1, the State managed the complete reconstruction using State-procured contractors that completed the work in accordance with a scope of work. Further, the State offered specific new home designs in varying square footage configurations for two-, three-, and four-bedroom homes. Solution 2 was a homeowner-managed reconstruction, in which at least 25 percent had been completed, a stop work order had been implemented, and the homeowner was under contract for the remaining work.

The estimated cost to rebuild homes in the four most impacted and distressed counties was between approximately $300,000 and $600,000. Each award in the owner-occupied rehabilitation and reconstruction program would be limited to no more than $500,000. The funding awarded or obligated from different funding sources that could potentially be a duplication of benefits was more than $11 billion.

Our audit objective was to determine what the State is considering and to what extent resilience-based mitigation efforts to help homeowners withstand potential future disasters, along with how the State is prioritizing its efforts in the program to assist qualified low-to-moderate-income beneficiaries.

Results of Audit

THE STATE GENERALLY PLANNED FOR MITIGATION EFFORTS AND PRIORITIZED ITS EFFORTS TO ASSIST QUALIFIED LOW-TO-MODERATE-INCOME BENEFICIARIES

The State's owner-occupied rehabilitation and reconstruction program generally planned for resilience-based mitigation efforts and prioritized its efforts to assist qualified low-to-moderate-income beneficiaries. The State faced some challenges, such as verifying structure type and size and assessing ownership and primary residency, in implementing this program due to its being one of the first housing rehabilitation and reconstruction programs addressing a wildfire disaster. While some nonsystemic exceptions existed, when the State recognized challenges, it made timely adjustments and changes. For instance, due to our audit, the State made a policy change to its solution 2 home option that should strengthen its program effectiveness and consistency and reduce the overall cost per applicant. The State's efforts to adjust its program and requirements as it encountered challenges indicates its willingness to address exceptions when known.

The State Generally Planned for Mitigation Efforts

The State required homes rebuilt under its owner-occupied rehabilitation and reconstruction program to comply with the Wildland-Urban Interface Code, which incorporates mitigation, resiliency, and health and safety standards for wildfires. Specifically, the Wildland-Urban Interface Code addresses structure density, building materials, and vegetation management to mitigate the risks of wildfires to life and property. While the State planned to incorporate these measures into its program, the system used to plan rehabilitation and reconstruction did not allow for one required material component to be coded correctly: 36-inch roof valley flashing. The system used to plan for materials needed and associated costs in the rehabilitation and reconstruction of homes allowed for only 14-inch roof valley flashing. The State relied on local inspectors' review and approval for compliance with the Wildland-Urban Interface Code and did not have evidence that proper roof valley flashing had been installed on the homes completed to that point. Further, the State did not require homes at that stage of construction to provide confirmation of the roof valley flashing installed. Therefore, the State did not have evidence to support that it used the roof valley flashing in accordance with the Wildland-Urban Interface Code.

The State Generally Prioritized Its Efforts To Assist Qualified Low-to-Moderate-Income Beneficiaries

By limiting participation in this program to only low-to-moderate-income homeowners, the State generally prioritized its efforts to assist qualified low-to-moderate-income beneficiaries. Of the 65 applicant files reviewed, the State had awarded 14 applicants a grant (22 percent). The remaining 51 applicants were in various parts of the grant determination process. During our audit, we noted some discrepancies; however, the State took steps to either explain or correct the discrepancies. Specifically, the State made a policy change to its solution 2 home option but had a few discrepancies when assessing ownership, primary residence, and duplication of benefits and calculating beneficiary income. The State was responsive to recognizing and addressing challenges in its programs.

The State Made a Policy Change Regarding Its Solution 2 Homes

The State's owner-occupied rehabilitation and reconstruction program offered two options for rebuilding destroyed homes. Under solution 1, the State managed the rebuild of the homes. Under solution 2, the homeowners managed the rebuild of the home. Of the 16 applicants who had mitigation efforts finalized, 14 had been awarded a grant. Of those 14 applicants, 5 applicants had chosen the solution 2 option. All five applicants had already started constructing their homes before entering this program as required.[1]

The State explained that there were challenges in implementing solution 2 in accordance with program policy, including (1) verifying square footage of the previous home, (2) ensuring no overcrowding, and (3) changing the structure from a mobile home to a stick-built home. Due to a wildfire disaster's being different from a water-borne disaster and the lack of experience from a Federal, State, and contractor perspective for operating such a program under a wildfire disaster, the State was unaware of the challenges when it originally offered the solution 2 option. For example, due to the fire damage caused and before the State performed its initial inspection, the footprint of the structure was removed. For the five applicants reviewed, the solution 2 option resulted in the homeowners' receiving larger homes, being overcrowded, or having a change in structure, which contradicted the State's program goals. After being notified of these conditions, the State decided to no longer accept applications for the solution 2 option and exclusively offer the solution 1 option going forward.

The State Had Deficiencies When Assessing Ownership or Primary Residence

The owner-occupied rehabilitation and reconstruction program required applicants to own and primarily reside at their property at the time of the disaster.[2] Of the 51 of 65 applicants still in process, 7 had discrepancies regarding ownership or primary residence. Due to the newness of this wildfire disaster program, the State encountered challenges previously unknown with other disasters when assessing various aspects of applicant information. As a result, the State may either provide an inaccurate amount of funding to applicants or may approve applicants who do not qualify for the program.

Seven of the 51 applicants that were still in process had discrepancies regarding ownership or primary residence. The properties of four applicants had additional owners, which the State did not acknowledge or consider for an initial duplication of benefits or income review. The State collected the income certification form for sample applicants between August 2021 and March 2022. It collected ownership information from sample applicants between October 2021 and April 2022. As of January 2023, the State did not have duplication of benefits or income information concerning the additional owners noted in the ownership information in its files. While the State was still reviewing these four applications, determining ownership of the property and primary residence of the owner early in the review process is vital to the efficiency of the program by avoiding significant time delays and expending administrative resources on ineligible applicants.

The remaining three applicants provided inconsistent information to establish ownership or primary residency.

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[1] State of California Owner-Occupied Rehabilitation and Reconstruction Policies and Procedures, section 3.2

[2] Ibid., sections 6.1 and 6.2

- Applicant 810090 provided several grant deeds to prove ownership at the time of the disaster. This disaster occurred from November 8 to 25, 2018. One grant deed showed that the applicant obtained ownership on November 29, 2018. This deed was filed with the county on November 30, 2018. The applicant provided another grant deed showing that the applicant obtained ownership on October 29, 2018. However, this grant deed was filed with the county on December 18, 2018. Without further information, the documentation provided supports that the applicant obtained ownership of the property after the disaster, which would disqualify the applicant from the program. The estimated replacement cost for this applicant was $386,000. After notification, the State determined that the applicant did not qualify for the program based on conflicting information regarding ownership.

- Applicant 811981 provided a 2018 utility bill in December 2021 to support that the applicant occupied the residence at the time of the disaster. The State collected the Federal Emergency Management Agency (FEMA) and Small Business Administration information (SBA), which included conflicting primary residence statuses for this property. FEMA indicated that it was the primary residence; however, SBA concluded that it was a rental property and not the primary residence. In addition, the applicant signed a statement indicating that the property was the applicant's primary residence, and the utility bill provided showed the applicant's name and the service address as the property under application. However, the utility usage chart showed only 1 month of activity before the disaster, and the mailing address was different from the service address. The documentation collected did not substantiate the primary residence, and further information would be needed to determine the primary residence. The estimated replacement cost for this applicant was approximately $384,000.

- Applicant 811362 also provided a 2018 utility bill in September 2021 to support that the property under application was the applicant's primary residence. The State collected the FEMA information, which indicated that this property was not the applicant's primary residence. The applicant then signed a statement indicating that the property was the applicant's primary residence. The utility bill provided had the applicant's name and service address as the property under application. However, a different address was used for mailing address on the utility bill and the applicant's 2021 tax return. The estimated replacement cost for this applicant was approximately $384,000.

When notified of the issues regarding primary residency for applicants 811981 and 811362, the State indicated that it had reverified the information and provided the same documentation as support for primary residence despite the contradictory information's being unresolved. In addition, the State referred to its review process, believing it would have caught the error at a later stage but before approving the application. We notified the State again of the unresolved contradictory information, and the State indicated that it was continuing its review process. If the State awards applicants grant funds without clarifying the conflicting and contradicting information, it could provide funds to ineligible applicants. Because the State had possessed the documentation since September and December of 2021 and had reverified the information without resolving the contradictory information, it did not appear that the State's procedures were adequate to recognize and resolve conflicting information. The State should develop and implement a policy to establish ownership and primary residency earlier in the process and to identify potential red flags in documentation. The State indicated that it planned to revise its policies and procedures to include reviewing and resolving contradictory information, including whether mailing and service addresses match. On February 13, 2023, the State notified us applicants 811981 and 811362 had withdrawn from the program.

Recommendations

We recommend that the Director of the Office of Disaster Recovery require the State to

1A. Implement policies and procedures that require maintaining documentation to ensure it can support compliance for the installation of 36-inch roof valley flashing.

1B. Determine if the proper roof valley flashing was installed on the completed and in progress homes, and if not, require the State to install the correct roof valley flashing using non-Federal funds.

1C. Enhance the system used to estimate costs, to include the Wildland-Urban Interface Code required roof valley flashing, or document in the system and its output the different materials and costs used.

1D. Develop and implement a policy to identify ownership and primary residency earlier in the review process and potential red flags in documentation.

1E. Document and support its decision regarding duplication of benefits and income verification for additional owners of the property under an application.

Recommendation Resolution

The State's response and information provided demonstrated that they have completed actions to address the recommendations 1A, 1C, and 1D. Therefore, we will close these recommendations upon issuance of the report.

Scope and Methodology

We performed our audit from July 2022 to January 2023 in the Fort Worth, TX, and Washington, DC, offices and remotely in Fort Worth, TX, Oklahoma City, OK, and Washington, DC.

To accomplish our objective, we

- Reviewed Federal laws and HUD regulations pertaining to disasters.
- Reviewed the California Department of Housing and Community Development's (HCD) policies and procedures for mitigation, duplication of benefits, and determination of low-to-moderate income.
- Interviewed HCD personnel.
- Reviewed 16 files in which the State completed steps through mitigation for mitigation efforts, duplication of benefits, and determination of low-to-moderate income.
- Reviewed 49 files in which the State conducted duplication of benefits and income determinations only for duplication of benefits and determination of low-to-moderate income.
- Discussed mitigation issues with HUD OIG appraisers.
- Discussed ownership and trust issues with HUD OIG's Office of Legal Counsel.

This audit included two sample selections, which resulted in a total of 65 State files being reviewed.

- The first sample included all 16 applicants who had final mitigation efforts determined. Of those applicants, the State had awarded 14 applicants a grant. We performed testing on all 16 applicant files for mitigation efforts, duplication of benefits, and income determination. We found all applicants had discrepancies regarding the roof valley flashing. One applicant had an ownership issue.
- The second sample included applicants who had initial mitigation efforts, duplication of benefits, and income determinations made. The State's universe for that sample was 170 applicants. We used a stratified random sample selection method and stratified by type of residence: single-family home or mobile home. This method resulted in a sample size of 49 applicants for review of initial duplication of benefits and income determination only. We identified six applicants who had either ownership or primary residence discrepancies. Due to the limited number of discrepancies, we did not project the results of the sample to the universe.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendixes

APPENDIX A - AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation – Auditee Comments

STATE OF CALIFORNIA - BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY GAVIN NEWSOM, *Governor*
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May 19, 2023

Kilah White, Assistant Inspector General for Audit, GA
Office of Inspector General (OIG)
US Department of Housing and Urban Development (HUD)
451 7th Street SW
Washington, DC 20410

Dear Kilah White:

RE: Draft State of California, 2018 Disasters Owner-Occupied Rehabilitation and Reconstruction Program Audit Report

On May 8, 2023, the California Department of Housing and Community Development (HCD) received the draft version of the HUD OIG 2022-2023 audit of the 2017/2018 ReCover California Owner-Occupied Rehabilitation/Reconstruction (OOR) Program.

HCD has the following comments regarding HUD OIG's recommendations in the draft report:

1A. Implement policies and procedures that require maintaining documentation to ensure it can support compliance for the installation of 36-inch roof valley flashing.

Comment 1 >

- HCD has publicly posted a document titled "Program Minimum Architectural and Design Standards" on the ReCoverCA OOR Program website. This document outlines the Program's construction standards which the Program's general contractor(s) must follow, and are specifically designed to meet California Wildland Urban Interface (WUI) Code requirements. 36-inch roof valley flashings are required on page 11. Link to document: https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/recoverca/DR%20OOR%20CM_Minimum%20Architectural%20Design%20Standards_V1_English_Web_Version.pdf

1B. Determine if the proper roof valley flashing was installed on the completed and in progress homes, and if not, require the State to install the correct roof valley flashing using non-Federal funds.

Comment 2 >

- In addition to inspections required by the local building departments, the OOR Program sends out its own inspectors to verify proper completion of the work done on OOR Project sites using standardized project milestone checklists. The OOR Program has added a requirement to the 75% milestone checklist to take photos of the 36" roof valley flashing that was installed. Program inspectors will photographically document that the correct type of flashing was installed before further work makes the flashing inaccessible.

1C. Enhance the system used to estimate costs, to include the Wildland-Urban Interface Code required roof valley flashing, or document in the system and its output the different materials and costs used.

Comment 3 >

- Since the OOR Program uses a subscription to the Xactimate system, HCD does not have the ability to influence the system vendors to add or update features to the system. The Program maintains that all OOR-built houses install 36" flashing which will be photographically verified by OOR Program inspectors, and all Program contractors have agreed to use the 14" flashing pricing (the only pricing for roof valley flashing available in Xactimate) to install the 36" flashing.

1D. Develop and implement a policy to identify ownership and primary residency earlier in the review process and potential red flags in documentation.

Comment 4 >

- The OOR Program has revised its quality control checklists and standard operating procedures to review and catch red flags in Program documentation earlier in the process. This policy change is reflected in version 4 of the OOR Program Policies and Procedures, Section 4: Applicant Eligibility Criteria. Link to Policies and Procedures: https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/ReCoverCA/ReCoverCA-PnPs-English.pdf

1E. Document and support its decision regarding duplication of benefits and income verification for additional owners of the property under an application.

Comment 5 >

- The OOR Program now conducts third-party searches of property information to account for all individuals and entities with an ownership interest in the property. Co-owners who are not going to be in the Applicant household will not have their incomes considered when evaluating Applicant income levels. Non-resident co-owners will now have to fill out a co-owner consent form indicating that they will not be living on the property and also consenting to the listed Applicants making decisions on alterations to the property. This change will be reflected in future versions of the OOR Program Policies and Procedures, but is already being implemented as of this writing.

Comment 6 >

1F. Support primary residence determinations for applicants 811362 and 811981 or not provide an award to these applicants.

- Applicants 811362 and 811981 withdrew from the Program on February 13, 2023.

Comment 7 >

HCD appreciates the HUD OIG team's professionalism and assistance throughout this entire audit process. The OIG auditors' feedback was instrumental in identifying weaknesses in Program design and improving Program processes as HCD continues to implement a first-in-the-nation large-scale wildfire housing recovery Program.

Point of Contact for this memorandum is Stacy Rodgers at stacy.rodgers@hcd.ca.gov or 916-841-6268.

Sincerely,

Sasha Hauswald
Deputy Director
Division of Federal Financial Assistance

OIG Evaluation of Auditee Comments

Comment 1 We acknowledge the State's positive response to our recommendation by adding a requirement to document the installation of the proper roof valley flashing. The State established the minimum standards for home design and construction within the State's OOR program, which requires "valley flashing must not be less than 26-gauge galvanized sheet metal over a 36" wide No. 72 ASTM cap sheet." Based on the State's response and actions, including its newly adopted 36-inch flashing requirement, which meets the Wildland-Urban Interface Code and addresses our finding related to it previously allowing 14-inch flashing, we closed the recommendation upon issuance of the report.

Comment 2 While the State provided examples of procedures to potentially address recommendation 1A, the response did not address how the State would ensure that completed or in-progress homes had installed the correct roof valley flashing. The State needs to work with HUD during the audit resolution process to ensure these homes had the required roof valley flashing installed.

Comment 3 We appreciate the State's efforts in working with the limitations of the system and providing an alternative for the different materials and associated costs of the roof valley flashing. Based upon the State's response and actions, we closed the recommendation upon issuance of the report.

Comment 4 We appreciate the State's efforts to improve its policy regarding identifying ownership and primary residency earlier in the review process. Based upon the State's response and actions, we closed this recommendation upon issuance of the report.

Comment 5 We appreciate the State's commitment to include updated policies regarding additional owners. We updated the body of the report to clarify the overall issue with additional owners. The State needs to work with HUD during the audit resolution process to ensure that the revised policies are adequate and will fully address the recommendation.

Comment 6 We updated the body of the report and removed Recommendation 1F to reflect the applicants withdrew from the program.

Comment 7 As noted in the report, the State's willingness to address challenges in this report was a great benefit to the beneficiaries of the program, the State, and HUD. As an example, the State stopped its solution 2 option because of risks identified in this report. We appreciate the State's cooperation throughout this audit.