



VIRGINIA REMOVAL OR REHABILITATION OF DERELICT STRUCTURES FUND

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Virginia Removal or Rehabilitation of Derelict Structures Fund (Derelict Structures Fund), administered by the Department of Housing and Community Development (Department), for the year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting systems;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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FUND HIGHLIGHTS

Derelict Structures Fund

The Derelict Structures Fund is a special non-reverting permanent fund that provides grants to localities for the acquisition, demolition, removal, rehabilitation, or repair of derelict structures. The Department also makes loans to private developers through the Virginia Community Capital (VCC) for the same purpose. However, these loans have a set interest rate and the recipients are required to pay back the loan within ten years after the project's completion. VCC redeposits these funds in order to finance future projects. The maximum award for a project is \$600,000.

During fiscal year 2016, the Department awarded a \$600,000 loan to a private developer in the Town of Warrenton for the Wort Hog Brewery Redevelopment project. Since fiscal year 2012, the Department has awarded five loans, totaling \$2,782,000, to private developers for redevelopment projects. These entities have since completed these projects and are in the process of repaying VCC.

During fiscal year 2016, the Department spent \$3,026,406 in support of redeveloping vacant and deteriorated industrial properties across multiple cities within the Commonwealth. Of this amount, the Department reimbursed localities \$1.8 million for the following grant funded projects: Leigh Street Armory Redevelopment in the City of Richmond, Henry Hotel Redevelopment in the City of Martinsville, and the 321 Craighead Warehouse Redevelopment in the City of Danville. Additionally, the Department reimbursed private developers \$1.2 million for the following loan funded projects: Petersburg Ice and Coal Building Redevelopment in the City of Petersburg and Virginia Metalcrafters Redevelopment in the City of Waynesboro.

The Department will use the cash remaining at year-end to fund remaining projects through completion. The Derelict Structure Fund's cash balance as of June 30, 2016, is \$4,221,439.

Fund Balance, July 1, 2015	\$5,216,423
Appropriation	2,000,000
Interest Income	31,422
Grant Disbursements	(1,800,000)
Loan Disbursements	(1,200,000)
Other Expenses	<u>(26,406)</u>
Cash with the Treasurer, June 30, 2016	<u>\$4,221,439</u>

Urban Public-Private Partnership Redevelopment Fund

The Code of Virginia authorized the creation of the Urban Public-Private Partnership Redevelopment Fund during fiscal year 2000 to address the problem of the lack of developable land in urban areas of the Commonwealth, and the high cost of redeveloping such land. The purpose of this fund is to make grants or loans to local governments for assembling, planning, clearing, and preparing sites for redevelopment by private developers. However, since its creation, the General Assembly has not appropriated any monies to this fund; therefore, it was not included in our audit.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 10, 2017

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Removal or Rehabilitation of Derelict Structures Fund (Derelict Structures Fund)**, administered by the Department of Housing and Community Development (Department), for the year ended June 30, 2016. We conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and reporting systems, review the adequacy of the Department's internal controls over the Derelict Structures Fund, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed internal controls over the Derelict Structures Fund.

We performed audit tests to determine whether the Department's controls over the Derelict Structures Fund were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and reporting systems for the Derelict Structures Fund. The financial information presented in this report came directly from the Commonwealth's accounting and reporting systems.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Although it was outside of the scope of the Derelict Structures Fund audit, we elected to follow up on the audit findings included within the report titled "Department of Housing and Community Development, Report on Audit for the Period July 1, 2012 through January 31, 2016" and dated August 8, 2016. Our audit found that the Department has taken adequate corrective action with respect to these audit findings.

Exit Conference and Report Distribution

We discussed this report with management on December 15, 2017.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

MAS/clj

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

As of June 30, 2016

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