

**THE VIRGINIA REMOVAL OR REHABILITATION
OF DERELICT STRUCTURES FUND
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Virginia Removal or Rehabilitation of Derelict Structures Fund administered by the Department of Housing and Community Development for the year ended June 30, 2002, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System
- no matters involving internal controls and its operation that we consider material weaknesses; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

January 16, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and transactions of the **Virginia Removal or Rehabilitation of Derelict Structures Fund** (Fund), which is administered by the Department of Housing and Community Development, for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording the Fund's financial transactions on the Commonwealth Accounting and Reporting System, review the internal controls over the Fund, and test compliance with laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations relative to the Fund. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control over the Fund and complying with applicable laws and regulations. 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 and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly administered the Virginia Removal or Rehabilitation of Derelict Structures Fund and properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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.

EXIT CONFERENCE

We discussed this report with management on February 13, 2003.

AUDITOR OF PUBLIC ACCOUNTS

JHT:cam
cam:

AGENCY BACKGROUND

Virginia Removal or Rehabilitation of Derelict Structures Fund

This fund issues grants to localities for the acquisition, demolition, removal, rehabilitation, or repair of derelict structures. When a locality is interested in a grant they must complete an application describing the project, location, beneficiaries, funds needed, and amount of matching funds. The Department must then approve the application. Upon approval the locality must sign a contract with the Department agreeing to the stipulations made in the grant application. Payments made to the localities are on a reimbursement basis. For the locality to receive reimbursement funds, they must submit a progress summary of all project work completed to date and a summary of expenses incurred in the period of the reimbursement.

Each grant is limited to \$100,000 and requires a 100 percent local match. The Department started the fiscal year with a \$1,198,761 carry over balance in this fund from fiscal year 2001. During fiscal year 2002, the Department expended \$1,139,715 to complete projects in thirteen localities.

The Governor's Budget Bill included language to transfer the fund balance at June 30, 2002 to the General Fund of the Commonwealth and did not include any additional appropriations for fiscal 2003.

The following reflects the Fund's financial activity for fiscal year 2002.

Revenue:

Appropriation	\$1,198,761	
Interest	<u>43,976</u>	
Total Revenue		\$1,242,737

Expenses:

Transfer Payments	1,139,715	
Other	<u>374</u>	
Total Expenses		<u>1,140,089</u>

Unexpended Balance		<u>\$ 102,648</u>
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