

**VIRGINIA DEPARTMENT OF HOUSING
AND
COMMUNITY DEVELOPMENT**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Virginia Department of Housing and Community Development, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the agency's Fiscal Management System;
- a matter 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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AUDIT FINDING AND RECOMMENDATION

We found that the Department of Housing and Community Development (Housing) did not issue monitoring reports as required by the Virginia Weatherization Assistance Program Operations Manual (manual). Per the manual, Housing is required to monitor each sub-recipient annually and issue a report to the sub-recipient 30 days after completing its review. Housing completed all 22 of its required reviews in fiscal year 2012; however, five were issued six months to one year late and, as of December 2012, 17 were still pending release.

Housing passes through approximately 98 percent of its U.S. Department of Energy Weatherization Grant funding to sub-recipients. Housing should work to ensure timely completion and issuance of all monitoring reports. Completing these reports will provide for the timely resolution of findings and recovery of disallowed costs when Housing identifies them.

AGENCY HIGHLIGHTS

The Virginia Department of Housing and Community Development (Housing) administers programs to improve housing, encourage community development, and regulate Virginia's building and fire codes. Major areas of responsibility include community development, community revitalization, affordable housing, homelessness assistance, building and fire safety, and rural development. Housing receives most of its funding through federal grants and general fund appropriations, and transfers a large portion of these funds to sub-recipients, such as localities and nonprofit organizations, to administer its programs.

The \$33.7 million difference between Housing's final budget and actual expenses is primarily due to a \$6.7 million variance in dedicated special revenue fund expenses, a \$16.3 million variance in federal trust fund expenses, and a \$7 million difference between budgeted stimulus funding and actual expenses. The dedicated special revenue variance occurred from an additional \$3 million appropriation to support the Derelict Structures Fund, along with a reduction in expenditures and future appropriations for several Housing programs. The federal trust fund variance is primarily due to the completion of the Homelessness Prevention and Rapid Re-Housing Program and escalation of the Weatherization Assistance Program (WAP), which caused a fluctuation in appropriations and expenditures. The variance in stimulus funding occurred because Housing anticipated receiving stimulus funds for the WAP, but the Department of Energy was only able to provide an estimate of the amount of funding. As such, Housing increased its 2012 budget to ensure that it would have sufficient appropriations to spend any federal stimulus funds it received in fiscal 2012.

Budget and Expense Analysis – Fiscal Year 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General Fund	\$ 46,896,153	\$ 47,623,191	\$ 44,951,908
Special Revenue Funds	3,051,890	3,251,890	2,329,483
Trust and Agency Fund	-	1,217,020	1,131,033
Dedicated Special Revenue	7,400,000	10,400,000	3,627,863
Federal Trust	71,392,950	71,392,950	55,082,102
Stimulus Funding	<u>-</u>	<u>42,200,000</u>	<u>35,197,519</u>
Totals	<u>\$128,740,993</u>	<u>\$176,085,051</u>	<u>\$142,319,908</u>

In fiscal year 2012, transfer payments to sub-recipients accounted for 92 percent of Housing's expenses, and personal services accounted for about five percent of total expenses. Combined, Housing's other four activities accounted for only three percent of all expenses.

Expenses by Activity – Fiscal Year 2012

	<u>Expenses</u>	<u>Percent</u>
Payments to Sub-recipients	\$130,777,027	92%
Personal Services	7,956,451	5%
Other	<u>3,586,430</u>	<u>3%</u>
Total	<u>\$142,319,908</u>	<u>100%</u>

WEATHERIZATION ASSISTANCE PROGRAM

In March 2009, the federal Department of Energy (Energy) announced that the American Recovery and Reinvestment Act (ARRA or the Act) included nearly \$5 billion for state and local weatherization. As part of this funding, Virginia expected to receive more than \$94 million in Weatherization Assistance Grant funds over the four-year life of the Act, a roughly 400 percent annual increase in funding over the previous program funding.

Funding Sources for Weatherization Services – Fiscal Years 2010 through 2012

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Weatherization Assistance Program	\$ 4,711,862	\$ 4,020,620	\$ 578,801
Stimulus Funding	21,715,579	18,471,436	33,227,841
Low-Income Home Energy Assistance	<u>16,298,289</u>	<u>12,410,881</u>	<u>8,413,332</u>
Total	<u>\$42,725,730</u>	<u>\$34,902,937</u>	<u>\$42,219,974</u>

The table above shows the funding trend for the Weatherization Assistance Program over the last three fiscal years. The table includes Low-Income Home Energy Assistance Program (LIHEAP) funds because Housing receives 15 percent of the federal LIHEAP funds from the Department of Social Services to support the Weatherization Assistance program. Housing's total expenses for Weatherization services increased by \$7.3 million in 2012. This was primarily due to the use of stimulus funds. Since the program began in 2009, Housing has spent \$80 million in stimulus funds.

The Weatherization Assistance Program provides federal funds to states and local governments to reduce the heating and cooling costs for low-income families, and to ensure their health and safety. The program provides repairs and improvements to home heating and cooling systems, and provides for the installation of energy-saving measures in the house.

Housing administers the Weatherization Assistance Program for Virginia by passing federal funds to 22 local agency providers. These local providers, which include Community Action Agencies, Area Agencies on Aging and other non-profit entities, are the providers of weatherization services. The following table details the amount of funding each local provider received in fiscal year 2012.

Transfer Payments to Local Agency Providers – Fiscal Year 2012

Appalachian Community Action and Development Agency, Inc.	\$ 1,505,409
Bay Aging, Inc.	762,397
Central Virginia Area Agency on Aging	608,485
Clinch Valley Community Action	512,417
Community Energy Conservation Program	876,263
Community Housing Partners Corporation	8,696,969
Crater District Area Agency on Aging	1,339,224
Eastern Shore Area Agency on Aging	1,104,017
H.O.P.E. Community Services	960,275
Lynchburg Community Action Group	486,687
Mountain Community Action Program	590,197
PEOPLE Incorporated of Virginia	671,597
Pittsylvania County Community Action	794,141
Project: HOMES (formerly ElderHomes)	3,188,643
Rappahannock Area Agency on Aging	712,249
Rooftop of Virginia Community Action Program	290,562
Southeastern Tidewater Opportunity Project	661,688
Support to Eliminate Poverty (STEP) Inc.	830,350
Telamon Corporation, Inc.	688,818
Total Action Against Poverty	2,911,424
Tri-County Community Action Agency	579,362
Williamsburg-James City County Community Action	<u>1,204,495</u>
Total	<u>\$29,975,669</u>

Housing assigns each local provider a geographical area, within which the individual local provider must operate the Weatherization Assistance Program. A map of these areas with their respective provider is available on Housing's website.

In addition to the increase in actual funding, the Act also made changes in program requirements. The program now allows for an average investment of up to \$6,500 per home in energy efficiency upgrades (up from \$3,500), and is available for families making up to 200 percent of the federal poverty level – or about \$51,000 a year for a family of four in Virginia.

Housing advertises the Weatherization Assistance Program on its state website and provides contact information for each local provider. Once an applicant contacts one of the local providers, the local provider determines if the applicant meets income eligibility guidelines. After the local provider determines income eligibility, the local provider schedules a date with the applicant for an energy audit. A local energy auditor conducts an audit of the applicant's home. The local provider uses the audit to identify the best energy-saving measures that are cost effective, healthy, and safe. Typical weatherization services include:

- Sealing air leaks with insulation, caulking, and weather-stripping
- Installation of ventilation fans
- Repairing drafty duct systems
- Repairing and replacing inefficient or unsafe heating and cooling systems
- Installation of energy efficient lighting

The Weatherization Assistance Program also checks for energy related health and safety risks, including testing for carbon monoxide levels and installing smoke detectors where necessary. The local provider also educates the recipients about proper use and maintenance of all installed systems.

The local provider then submits summary level data of their expenses, which Housing reimburses. A Housing employee conducts performance reviews of all 22 providers annually. Through fiscal year 2012, the review included five percent of each local provider's weatherized homes. The Housing employee reviews eligibility documentation to ensure all of the Weatherization applicants meet federal eligibility requirements. The employee then performs site reviews at the corresponding units to determine if local providers completed weatherization services adequately and in accordance with program guidelines. In addition to the program review, Housing has a position to conduct fiscal reviews of each local provider.

COMMUNITY DEVELOPMENT BLOCK GRANTS

The Community Development Block Grant (CDBG) is Housing's largest non-stimulus federally funded grant with fiscal year 2012 expenses totaling over \$31.3 million. This grant helps develop communities by providing a suitable housing and living environment, eliminating blighted conditions in deteriorated areas, and creating job and business opportunities for low- to moderate-income persons. Specific activities include assistance for economic development, infrastructure, community facilities, commercial district revitalization, comprehensive neighborhood improvement, real property acquisition, and housing rehabilitation.

Funding Sources for Community Development Block Grants – Fiscal Years 2010 through 2012

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Community Development Block Grants	\$15,621,148	\$22,666,279	\$22,190,019
Stimulus Funding	1,317,575	3,389,160	489,431
Neighborhood Stabilization Program	<u>17,758,132</u>	<u>19,211,709</u>	<u>8,650,445</u>
Total	<u>\$34,696,855</u>	<u>\$45,267,148</u>	<u>\$31,329,895</u>

The table above shows funding trends for Community Development Block Grants over the last three fiscal years. Housing's block grant expenses decreased by \$13 million in 2012 due to the program receiving an almost 25 percent reduction in federal appropriations over the last program year. Expenses for the Neighborhood Stabilization Program (NSP) also decreased in 2012 due to Housing continuing to spend the remaining available funding of the program. Housing

expects the available funding for NSP to continue decreasing as the award is spent in coming fiscal years.

In 1974 the U.S. Congress established Community Development Block Grants in the Housing and Community Development Act and the U.S. Department of Housing and Urban Development administers the grant. Block Grant funds must meet at least one of the three national objectives established in the Act. The national objectives are as follows: (1) the funding must give maximum feasible priority to activities which will benefit low- and moderate-income families, (2) the funding must aid in the prevention or elimination of slums and blight, and (3) the funding may also include activities designed to meet other community development needs having a particular urgency, as when existing conditions pose a serious and immediate threat to the community. The CDBG Program makes funding available to units of local government for planning and implementing community development projects in non-entitlement localities, which are those localities not receiving CDBG assistance directly from the U.S. Department of Housing and Urban Development.

The Neighborhood Stabilization Program (NSP) authorized under the Housing and Economic Recovery Act of 2008 assists localities in the redevelopment of abandoned and foreclosed homes. The U.S. Congress designed the NSP to stabilize existing neighborhoods having significant foreclosures by purchasing foreclosed or abandoned homes, rehabilitating the homes and reselling them to low-moderate-middle income families. As the above table indicates, Housing has spent approximately \$45.6 million over the last three fiscal years.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 23, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Department of Housing and Community Development** for the audit period of July 1, 2010 to June 30, 2012. 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 Accounting and Report System and Housing's Fiscal Management System, review the adequacy of Housing's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Housing's management has responsibility for establishing and maintaining internal control 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.

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 controls over the following significant cycles, classes of transactions, and account balances.

- Systems access
- Payroll
- Transfer payments
- Subrecipient monitoring procedures and controls
- Federal grant revenues and expenses

Our audit did not include the Urban Public Private Partnership Redevelopment Fund and Virginia Removal or Rehabilitation of Derelict Structures Fund, which will be covered by a separate report.

We performed audit tests to determine whether Housing's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Housing's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Housing properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and Housing's Fiscal Management System. Housing 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 of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation and compliance with applicable laws and regulations that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation."

Exit Conference and Report Distribution

We discussed this report with management on January 30, 2013. Management's response to the finding identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

AVG/clj



Robert F. McDonnell
Governor

James S. Cheng
Secretary of
Commerce and Trade

COMMONWEALTH of VIRGINIA

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

William C. Shelton
Director

January 31, 2013

Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond Virginia 23218

Dear Ms. Mavredes:

The Department of Housing and Community Development (DHCD) appreciates the opportunity to respond to the report issued by the Auditor of Public Accounts for FY 2012. The report contains one finding recommending DHCD improve timeliness of sub-recipient monitoring reports in the Weatherization Program. DHCD complied as required by monitoring each of the 22 sub-recipients annually. The audits were completed, however, DHCD concurs that all 22 written reports have not been issued in a timely manner.

Because of the vastly increased accountability and transparency associated with these funds, DHCD has been extremely cautious in the preparation of monitoring reports to ensure that regulatory matters and questioned costs are appropriately identified and addressed in accordance with the guidance from the federal funding source.

DHCD recently hired a P-14 who will concentrate on these reports and plans to have the monitoring reports completed by the end of March 2013. We intend to contract for additional assistance to do the final monitoring that will need to take place as we close out the ARRA Weatherization program in September of 2013. The program staff will work diligently toward completion of the sub-recipient reports and resolution of findings in the future.

DHCD will continue to enhance the monitoring processes for this program and plans to ensure that the finding will not reoccur in the future.

Sincerely,

Bill Shelton

wcs\ljm

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

William C. Shelton, Director

Basil Gooden, Principal Deputy Director

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