

**DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Department of Housing and Community Development for the year ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- an internal control matter that we consider a reportable condition; however, we do not consider this to be a material weakness; and,
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR'S REPORT	1-2
INTERNAL CONTROL FINDING AND RECOMMENDATION	3
AGENCY BACKGROUND AND FINANCIAL INFORMATION	4
Economic Development Research, Planning, and Coordination Program	5-6
Housing Assistance Service Program	6
Regulation of Structure Safety Program	7
Administrative and Support Services Program	7
AGENCY OFFICIALS	8

January 19, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the Department of Housing and Community Development for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

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

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. 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. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Federal Grants and Contracts
Expenditures
Revenues

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. We performed audit tests to determine whether the Department'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.

The Department'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.

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 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 generally accepted accounting principles. 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 that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition entitled, "Develop and Document an Efficient Monitoring Process," is described in the section titled, "Internal Control Finding and Recommendation." We believe that this reportable condition is not a material weakness.

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 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 at an exit conference held on January 30, 2001.

AUDITOR OF PUBLIC ACCOUNTS

PBB:twh
twh:38

INTERNAL CONTROL FINDING AND RECOMMENDATION

Develop and Document an Effective Monitoring Process

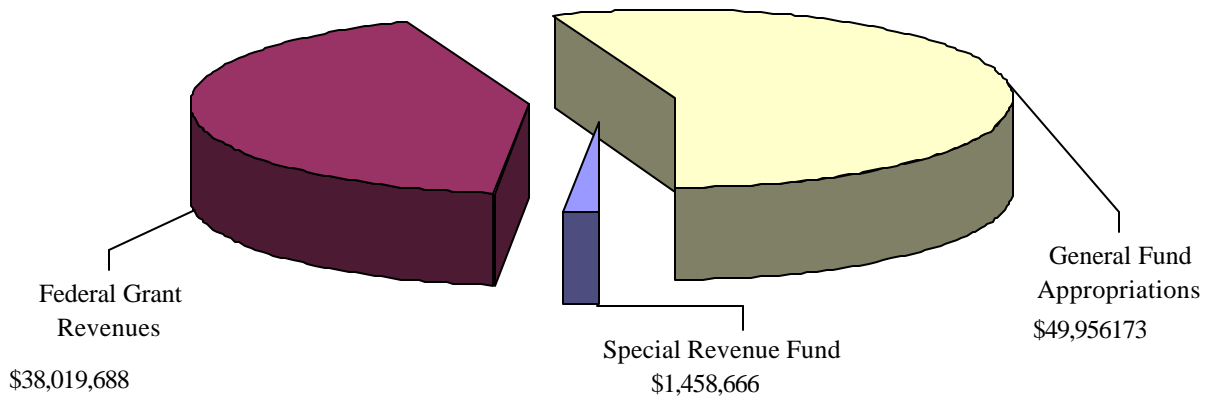
During fiscal year 2000, the Department transferred approximately \$71 million in federal and state funds to over 400 subrecipients. We found no instances of inadequate monitoring, but did note that the Department had not developed or documented agency-wide policies and procedures for monitoring subrecipient activity. Lack of overall guidance, limited resources, and the Department's decentralized structure could result in inadequate and inconsistent monitoring of future subrecipient activity.

The Department should develop and document a risk-based approach to properly assess and allocate resources to effectively monitor subrecipient activity. The Department should use this risk-based approach and re-evaluate its monitoring process annually, addressing regulation, program, or policy changes. Further, the Department should maintain the annual risk assessments in the appropriate subrecipient file.

AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department of Housing and Community Development is responsible for programs to improve housing, encourage community development, and ensure compliance with the building code. The Department received over \$87 million from the General Fund and federal grants and transferred approximately \$71 million to over 400 subrecipients, such as localities and non-profit organizations. Major areas of responsibility include community development, community revitalization, affordable housing, homeless assistance, building and fire safety, and rural development.

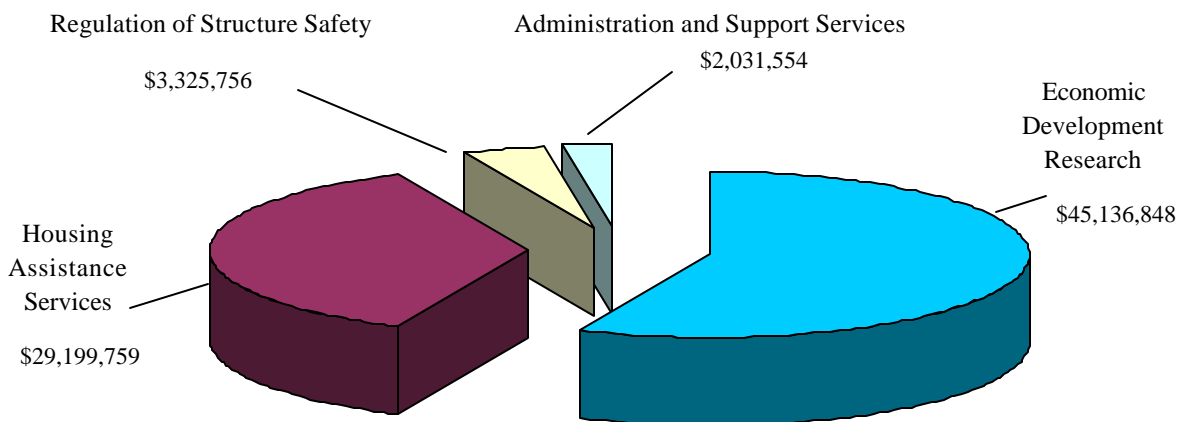
Fiscal Year 2000 Funding Sources



The Department spends over half of its budget to provide technical assistance and financing to local governments, planning district commissions, nonprofit organizations, and businesses. These funds support a wide range of community development needs, including infrastructure improvement and revitalization of downtown areas. The Department provides over 30 percent of its budget in grants and loans to low-income families for shelters, emergency home repairs, and home improvements.

Four programs drive the Department's organization and activities: Economic Development Research, Planning and Coordination; Housing Assistance Services; Regulation of Structure Safety; and Administration and Support Services. The Department expended over \$79.7 million through these four programs, including \$6.5 for personnel services, as shown in the chart below.

Fiscal Year 2000 Financial Expenditures



Economic Development Research, Planning and Coordination Program

The Division of Community Development manages the Economic Development Research, Planning and Coordination program. This program supports various grants and activities designed to address a broad range of community and economic development needs and enhance economic vitality in communities. The Division transferred over 94 percent of program funds to subrecipients through the administration of state and federal grants. These grants are described below.

- The *Community Development Block Grant (CDBG)* is the Division's largest federally-funded grant with fiscal year 2000 expenditures of \$21.7 million. This grant helps develop communities by providing decent housing and a suitable living environment, eliminating blighting conditions in deteriorated areas, and creating job and business opportunities for low to moderate income persons. Specific activities include acquisition of real property, and rehabilitation, relocation, and demolition of homes and buildings.
- The *Virginia Removal or Rehabilitation of Derelict Structures Fund* is a state grant established on July 1, 1999 to address the serious problem of derelict structures in the Commonwealth, particularly in urban areas. During fiscal year 2000, the Division awarded \$500,000 in grants to five localities for the acquisition, demolition, removal, and rehabilitation of derelict structures.

- The *Indoor Plumbing Rehabilitation Program* provides loans to cities and counties not receiving CDBG assistance directly from the U.S. Department of Housing and Urban Development. The loans fund the installation of indoor plumbing to owners of substandard housing where plumbing does not exist, or where existing water delivery or waste disposal systems have failed.
- The *Virginia Enterprise Initiative* provides funding to local and regional organizations to support microenterprise development. Low income entrepreneurs receive business development assistance and small loans to assist them in becoming economically self-sufficient.
- The *Industrial Site Development Fund* provides funding for infrastructure at regional industrial parks. This program targets distressed localities and helps them develop the industrial development facilities to attract new employment and investment.
- The *Regional Competitiveness Program* provides financial incentives to localities that come together on a regional basis to address their most critical economic development issues. Regional partnerships cover the entire Commonwealth and carry out a variety of regional initiatives tailored to meet the needs and issues of each individual region.

Housing Assistance Services Program

The Division of Housing manages the Housing Assistance Services program and transferred over 94 percent of its funds to subrecipients through the administration of state and federal grants. These grants, which provide funding, training, and technical assistance, include::

- The *HOME Investment Partnership Program* is a multi-purpose, federally-funded grant with fiscal year 2000 expenditures of \$8.9 million. This program seeks to expand the supply of decent and affordable housing for low and very low-income individuals. The fund intends to implement strategies for achieving adequate supplies of decent, affordable housing and providing financial and technical assistance to participating localities.
- The *Weatherization Assistance Program* provides energy-related improvements to existing housing units with fiscal year 2000 expenditures of \$2.1 million. These improvements include increasing the energy efficiency of residences occupied by low-income persons, particularly the elderly, those with disabilities, and families with children, while ensuring their health and safety.
- The *SHARE Shelter Support Grant* is a state program that provides funds to non-profit and local government providers of emergency shelters and transitional housing for operations and support services.
- The *SHARE Homeless Intervention Program* provides grants to nonprofit organizations and local governments for grants and loans for temporary mortgages and rental assistance for low-income households that are homeless or at an imminent risk of becoming homeless. This program also provides security deposit assistance for homeless households.

Regulation of Structure Safety Program

The Division of Building and Fire Regulation administers the Regulation of Structure Safety programs and provides technical assistance and staffing to the boards responsible for development and adoption of building and fire prevention codes. The Division administers such codes, manages the Virginia Building Code Training Academy, and administers the provisions of certification standards for building/fire officials and technical assistance.

Administrative and Support Services Program

The Division of Administration manages the administrative and support services programs and provides departmental and administrative support services and functions that are essential to fulfill the Department's mission. These services and functions include computer services, financial management of grants, personnel, budgeting, research, procurement, payroll, and processing financial transactions.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Richmond, Virginia

As of June 30, 2000

William C. Shelton, Director

G. Glenn Oder, Chief Deputy Director

BOARD OF HOUSING AND COMMUNITY DEVELOPMENT

H. Richard Ashe, Chairman

Richard Ahuja	Nancy A. Bright
Nancy C. Auth	Susan F. Dewey
Don Bosserman	Inez Fleming
Gary Bowman	Richard Harris

John H. Kilgore