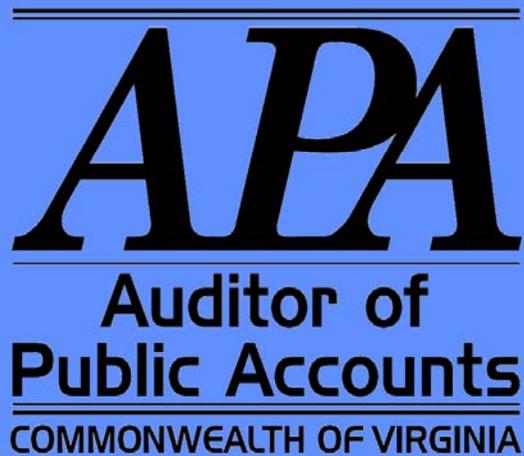


**DEPARTMENT OF HOUSING  
AND COMMUNITY DEVELOPMENT**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2010**



## **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 agency's Fiscal Management System and in the Commonwealth Accounting and Reporting System;
- a matter involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

## TABLE OF CONTENTS

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDING AND RECOMMENDATION	1
AGENCY HIGHLIGHTS	2-3
WEATHERIZATION ASSISTANCE PROGRAM	3-5
COMMUNITY DEVELOPMENT BLOCK GRANTS	5-6
AUDIT OBJECTIVES	7
AUDIT SCOPE AND METHODOLOGY	7-8
CONCLUSIONS	8
EXIT CONFERENCE AND REPORT DISTRIBUTION	8
AGENCY RESPONSE	9
AGENCY OFFICIALS	10
APPENDIX A: MAP OF LOCAL AREA PROVIDERS	11

## **AUDIT FINDING AND RECOMMENDATION**

### **Improve Timeliness of Sub-Recipient Monitoring Reports**

The Department of Housing and Community Development (DHCD) passes through about 98 percent of its U.S. Department of Energy (Energy) Weatherization Grant funding to sub-recipients who administer the program. While each of the twenty-two recipients must undergo annual A-133 compliance audits, DHCD provides guidance and monitors these sub-recipients for both operational and financial compliance. We found that DHCD can improve the timeliness of reporting results of sub-recipient monitoring for compliance with the provisions of the grant.

We found that DHCD completed and issued reports on 11 of 22 required annual sub-recipient reviews. DHCD partially completed all the reviews for fiscal year 2010, but as of the date of this audit had not completed reports or finalized questioned costs for half of its sub-recipients. Additionally, Energy is withholding 25 percent of DHCD's Weatherization Grant funds due, in part, to incomplete monitoring reviews of all sub-recipients.

DHCD's ability to complete reviews timely is a factor of a number of conditions. First, the Weatherization program experienced significant growth with the passing of the American Recovery and Reinvestment Act. Energy, in response to the program's growth, changed its grant management guidelines, but has not communicated all of these changes to DHCD timely.

For example, in the midst of performing the sub-recipient monitoring reviews, Energy informed DHCD that sub-recipients were no longer required to fully complete individual jobs prior to requesting payment. Rather, ongoing monthly costs could be reimbursed as incurred as long as they are associated with a job. This is a significant change to how DHCD previously managed Weatherization funds and impacted the results of some of the partially completed monitoring reports.

Further, due to the growth of the Weatherization program over the last three years and the fact that the increased funding is only a short-term increase, DHCD does not have the same amount of resources devoted to monitoring as they have with similarly sized programs, such as Community Development Block Grants.

Energy needs to clarify and work with DHCD to establish guidelines before DHCD is directed to spend funds so that DHCD can effectively establish appropriate controls and monitoring processes. We recognize the factors described above have affected DHCD's ability to complete sub-recipient monitoring reviews timely, however, DHCD should continue to work to ensure their timely completion. Energy's lack of timely guidance has delayed the completion of monitoring reports, which is a prerequisite for the release of Virginia's remaining Weatherization funds held by Energy. Completing these reports timely will also provide for the timely resolution of findings and recovery of disallowed costs when DHCD identifies them.

**AGENCY HIGHLIGHTS**

DHCD administers programs to improve housing, encourage community development, and ensure compliance with the Commonwealth’s building code. Major areas of responsibility include community development, community revitalization, affordable housing, homelessness assistance, building and fire safety, and rural development. DHCD receives most of its funding through federal grants and the General Fund, and transfers a large portion of these funds to sub-recipients, such as localities and nonprofit organizations, to administer its programs.

The nearly \$26.5 million difference between DHCD’s Final Budget and actual expenses is due to an \$8.7 million variance in federal fund expenses, a \$6.4 million difference between budgeted stimulus funding and actual expenses, and a \$5.5 million difference in the budgeted general funds and actual general fund expenses. The general fund variance is primarily due to the carryover of funds for several construction grants. The variance in stimulus funding occurred because DHCD knew it was going to receive stimulus funds for the Weatherization Assistance Program, but the Department of Energy was only able to provide an estimate of the amount of funding. As such, DHCD increased its 2010 budget to ensure that it would have sufficient appropriations to spend any federal stimulus funds it received in fiscal 2010.

**Budget and Expense Analysis – Fiscal Year 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 37,846,702	\$ 45,400,804	\$ 39,950,642
Special revenue funds	3,051,890	3,599,702	1,966,158
Dedicated special revenue	7,400,000	7,428,434	4,193,079
Federal fund	71,392,950	89,712,950	80,969,925
ARRA funding	-	<u>34,131,947</u>	<u>27,718,537</u>
Totals	<u>\$119,691,542</u>	<u>\$180,273,837</u>	<u>\$154,798,341</u>

*Source: Chapter 781 of the Appropriation Act, Caboose Bill of the Appropriation Act  
Commonwealth Accounting and Reporting System*

In fiscal year 2010, transfer payments to subrecipients accounted for 93 percent of DHCD’s expenses, and personal services accounted for about five percent of total expenses. Combined, DHCD’s other four activities accounted for only two percent of all expenses.

**Expenses by Activity – Fiscal Year 2010**

	<u>Expenses</u>	<u>Percent</u>
Payments to Sub-recipients	\$144,488,472	93%
Personal Services	7,530,690	5%
Other	<u>2,779,179</u>	<u>2%</u>
Total	<u>\$154,798,341</u>	<u>100%</u>

*Source: Commonwealth Accounting and Reporting System*

Six service areas drive the agency’s organization and activities: Housing Assistance Services, Industrial Development Services, Economic Development Services, Administrative and Support Services, Regulation of Structure Safety, and Government Affairs Services. Together, Housing Assistance Services, Industrial Development Services, and Economic Development Services account for nearly 97 percent of the agency’s expenses.

Expenses by Service Area for Fiscal Year 2010

	<u>Expenses</u>	<u>Percent</u>
Housing Assistance Services	\$ 81,897,757	53%
Industrial Development Services	12,173,352	8%
Economic Development Services	55,981,808	36%
Administrative & Support Services	2,782,565	2%
Regulation of Structure Safety	1,610,830	1%
Governmental Affairs Services	<u>352,029</u>	<u>&lt; 1%</u>
	<u>\$154,798,341</u>	<u>100%</u>

*Source: Commonwealth Accounting and Reporting System*

**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 should expect to receive more than \$94 million in Weatherization Assistance Grant funds over the three-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 2008 through 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Weatherization Assistance Program	\$ 4,142,381	\$ 4,005,041	\$ 4,711,862
ARRA Funding for Weatherization	-	2,536,529	21,715,579
Low-Income Home Energy Assistance	<u>7,046,473</u>	<u>10,879,070</u>	<u>16,298,289</u>
Total	<u>\$11,188,854</u>	<u>\$17,420,640</u>	<u>\$42,725,730</u>

*Source: Commonwealth Accounting and Reporting System*

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 DHCD must transfer 15 percent of the federal LIHEAP funds from the Department of Social Services to support the Weatherization Assistance program. DHCD’s weatherization expenses increased by \$25.3 million in 2010. This was primarily due to a \$5.4 million increase in LIHEAP funding and the \$21.7 million use of stimulus funds. As we discuss later, DHCD passed the majority of the funding from the Act to its local agency providers so they could weatherize more homes.

In fiscal 2009, Energy awarded DHCD roughly \$94 million in stimulus funds for the Weatherization Assistance Program. From fiscal 2009 to fiscal 2010, DHCD spent \$24.3 million of those funds. During that time, DHCD only had access to \$47 million, or half of the stimulus funds. Energy required DHCD to meet certain benchmarks in order to gain access to the remaining 50 percent of the funds. DHCD did not meet all of those requirements, which included completing sub-recipient fiscal monitoring reports for all providers, during the audit period. However, Energy did make another 25 percent of the remaining funds available for draw-down.

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.

DHCD 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 2010.

Transfer Payments to Local Agency Providers – Fiscal Year 2010

Community Housing Partners Corporation	\$ 6,101,816
Elder Homes Corporation	2,050,007
Southeastern Tidewater Opportunity Project (STOP)	2,610,943
Total Action Against Poverty (TAP) of Roanoke	1,556,735
Community Energy Conservation Program	1,756,173
Central Virginia Area Agency on Aging	769,867
Bay Aging	1,170,676
H.O.P.E., Inc.	584,296
Rappahannock Area Agency on Aging	680,900
Rural Areas Development Association	746,590
Crater District Area Agency on Aging	1,034,176
Lynchburg Community Action Group	671,597
Tri County Community Action Agency	419,164
Eastern Shore Area Agency on Aging	595,530
Telamon Corporation	185,861
PEOPLE Incorporated of Virginia	1,104,801
Rooftop of Virginia	661,688
Mountain Community Action Program	311,057
Williamsburg – James City County Community Action	826,959
Pittsylvania County Community Action Agency	498,138
Support to Eliminate Poverty (STEP) Inc.	566,847
Clinch Valley Community Action Agency	<u>503,314</u>
Total	<u>\$25,407,134</u>

*Source: Commonwealth Accounting and Reporting System*

DHCD assigns each local provider a geographical area, within which the individual local provider must operate the Weatherization Assistance Program. The map shown in Appendix A shows the geographical area covered by each local provider.

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 \$44,000 a year for a family of four in Virginia.

DHCD 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 those listed on the following page.

- 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 DHCD reimburses. A DHCD employee conducts performance reviews of all 22 providers annually. Through fiscal 2010, the review included 10 percent of each local provider's weatherized homes. The DHCD 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.

Beginning in fiscal 2010, the federal Department of Energy allowed DHCD to reduce the percentage of cases reviewed at each local provider to five percent of their total clients in response to the increased number of homes undergoing weatherization with stimulus funding. In addition to the program review, DHCD created a position to conduct fiscal reviews of each local provider.

### **Community Development Block Grants**

The Community Development Block Grant is DHCD's largest non-stimulus federally funded grant with fiscal year 2010 expenses totaling over \$34.6 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 2008 through 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Community Development Block Grants	\$ 21,495,665	\$ 21,428,639	\$15,621,148
ARRA Funding for CDBG	-	-	1,317,575
Neighborhood Stabilization Program	<u>-</u>	<u>215,190</u>	<u>17,758,132</u>
Total	<u>\$21,495,665</u>	<u>\$ 21,643,829</u>	<u>\$34,696,855</u>

*Source: Commonwealth Accounting and Reporting System*

The table above shows funding trends for Community Development Block Grants over the last three fiscal years. DHCD’s block grant expenses increased by \$13 million in 2010 due to the first full year of funding the Neighborhood Stabilization Program of \$17.7 million dollars and a \$1.3 million ARRA award for the Block Grants. The Block Grants also decreased by \$5.8 million due to a decrease in the disaster relief grants spending, additional ramp up time needed for more complex projects resulting in slower spending, and both staff and grantees diverting attention from the block grant to the Neighborhood Stabilization Program (NSP) and other programs.

In 1974 the U.S. Congress established Community Development Block Grants in the Housing and Community Development Act (Act) and the Federal Department of Housing and Community 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.

Virginia received about \$38.7 million to fund the NSP. DHCD has obligated all of the funds to units of local governments, non-profits, Planning District Commissions, and Housing and Redevelopment Authorities. As the above table indicates, DHCD has spent approximately \$18 million and will spend the remaining \$20.7 million in the coming fiscal years.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

January 12, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia Department of Housing and Community Development (DHCD)** for the year ended June 30, 2010. 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 Reporting System and in the agency's Fiscal Management System and test compliance for the Statewide Single Audit. In support of these objectives, we reviewed the adequacy of DHCD's internal controls, tested compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

DHCD'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.

- Subrecipient monitoring procedures and controls
- Federal grant revenues and expenses
- Accounts payable
- Review of prior year findings

Our audit did not include the Urban Private Partnership Redevelopment Fund and Virginia Removal or Rehabilitation or Derelict Structures Fund, which will be covered by a separate audit that we will conduct at a later date. Our audit also did not include payroll expenses, as the Department of Accounts' Payroll Service Bureau provides administration of the agency's payroll processes, which are covered by a another audit we are conducting, which the results of that audit will be reported at a later date in a separate report.

We performed audit tests to determine whether DHCD'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, and records, and observation of DHCD's operations. We tested transactions and performed analytical procedures, including budgetary and trend analysis.

### Conclusions

We found that the Virginia Department of Housing and Community Development properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and its internal Fiscal Management System. The Virginia Department of Housing and Community Development 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, which is also an instance of non-compliance with federal regulations that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation." Management has partially addressed the deficiency identified in our prior report with respect to sub-recipient monitoring; however they should improve the timeliness of reporting on those reviews.

### Exit Conference and Report Distribution

We discussed this report with management on January 11, 2011. 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

AWP/alh



Robert F. McDonnell  
Governor

James S. Cheng  
Secretary of  
Commerce and Trade

# COMMONWEALTH of VIRGINIA

William C. Shelton  
Director

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

January 21, 2011

Walter J. Kucharski, Auditor  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond Virginia 23218

Dear Mr. Kucharski:

The Department of Housing and Community Development (DHCD) appreciates the opportunity to respond to the report issued by the Auditor of Public Accounts. The report contains one finding recommending DHCD improve timeliness of sub-recipient monitoring reports in the Weatherization Program. The Department completed on-site monitoring visits at all 22 weatherization sub-recipients and, however, concurs that all 22 written reports have not been issued in a timely manner.

APA aptly noted the tremendous increase in Program funding due to the American Recovery and Reinvestment Act and the constantly changing environment in which the Program is being administered. 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.

Program staff continues to work diligently toward completion of the sub-recipient reports and resolution of findings. The Department anticipates that the remainder of the reports will be issued within 90 days, resolving the APA finding.

The Department of Energy has monitored our progress continuously; however, they have not been prompt in responding with guidance concerning the monitoring of Virginia's Weatherization Program. The State continues to provide technical assistance to sub-recipients and to develop and improve internal processes and policies that will, in turn, reduce future monitoring issues.

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

Partners for Better Communities



[www.dhcd.virginia.gov](http://www.dhcd.virginia.gov)

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

William C. Shelton, Director

Basil Gooden, Principal Deputy Director

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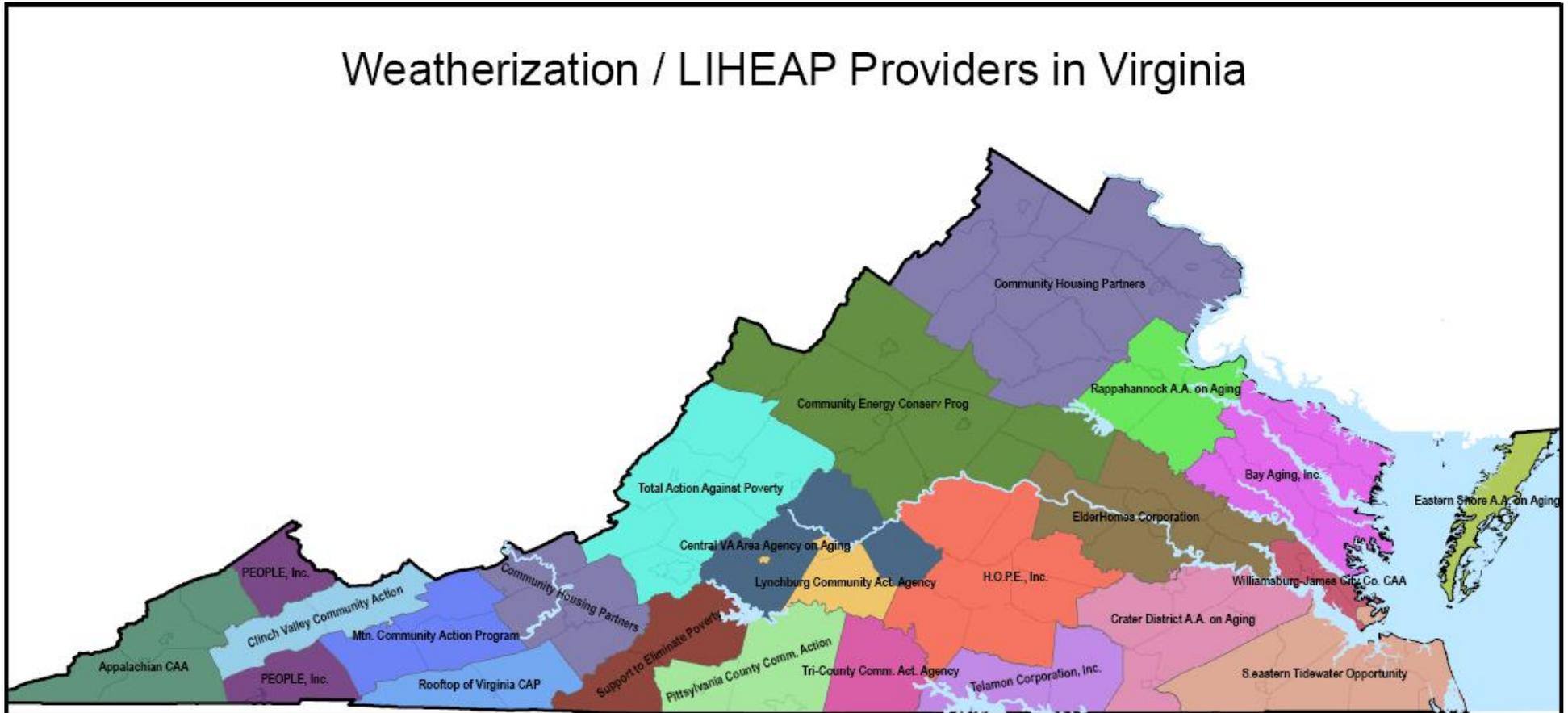
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Appendix A: Map of local Weatherization Providers



Source: [www.dhcd.virginia.gov](http://www.dhcd.virginia.gov)