

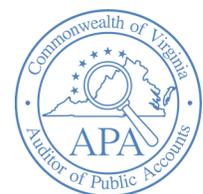


DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT

VIRGINIA REMOVAL OR REHABILITATION
OF DERELICT STRUCTURES FUND

FOR THE YEARS ENDED
JUNE 30, 2017 AND JUNE 30, 2018

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 years ended June 30, 2017, and June 30, 2018, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system;
- 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 years 2017 and 2018, the Department spent \$4,456,022 in support of redeveloping vacant and deteriorated industrial properties across multiple cities within the Commonwealth. Of this amount, the Department reimbursed localities \$3.4 million for grant funded projects including, but not limited to, the Boones Mill Park Revitalization in the Town to Boones Mill, Bedford Brewery Block Redevelopment in the County of Bedford, Academy of Music Theatre in the City of Lynchburg, and Southern Virginia Food Hub in the Town of South Hill. Additionally, the Department reimbursed private developers \$1.1 million for the following loan funded projects: Wort Hog Brewery in the Town of Warrenton and Cape Charles Brewing Company in the Town of Cape Charles.

The Department will use the cash remaining at year-end to fund remaining projects through completion. The Derelict Structures Fund's cash balance as of June 30, 2018, is \$3,254,085.

Fund Balance, July 1, 2016	\$4,221,439
Appropriation	3,500,000
Interest Income	74,699
Grant Disbursements	(3,356,022)
Loan Disbursements	(1,100,000)
Other Expenses	(85,493)
Transfers Out	<u>(538)</u>
Cash with the Treasurer, June 30, 2018	<u>\$3,254,085</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

February 20, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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**, administered by the Department of Housing and Community Development, for the year ended June 30, 2017, and June 30, 2018. 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 system for the Derelict Structures Fund. The financial information presented in this report came directly from the Commonwealth's accounting and reporting system.

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.

Exit Conference and Report Distribution

We discussed this report with management on February 28, 2019.

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

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DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

As of June 30, 2018

Erik Johnston, Director