

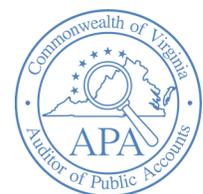


# DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

## AUDIT OF SELECT FEDERAL PROGRAMS FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts  
Staci A. Henshaw, CPA

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## AUDIT SUMMARY

Our audits of the Emergency Rental Assistance (ERA) federal grant program, Low-Income Home Energy Assistance (LIHEA) federal grant program, and federal Community Development Block Grant (CDBG) Disaster Recovery Grants Pub. L No. 113-2 Cluster of programs, administered by the Department of Housing and Community Development (Housing and Community Development), for the fiscal year ended June 30, 2021, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system and in Housing and Community Development's grants management systems; and
- seven matters involving internal control and its operation necessary to bring to management's attention that also represent instances of noncompliance with applicable laws and regulations or other matters that are required to be reported. Of these findings, the finding titled "Complete FFATA Reporting for First-Tier ERA Subaward" is considered to be material noncompliance and will result in a qualified opinion for the Emergency Rental Assistance federal grant program in the Commonwealth's Single Audit report for the year ended June 30, 2021. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to this federal grant program. The Single Audit report will be available on APA's website at <http://www.apa.virginia.gov> in February 2022.

Housing and Community Development has faced significant operational challenges resulting from the COVID-19 public health emergency (pandemic). In January 2021, Housing and Community Development received \$524 million from the United States Department of the Treasury (Treasury) to administer the newly created ERA federal grant program. Section 501 of the Consolidated Appropriations Act, 2021 (15 USC § 9058a), authorized this funding and gave Housing and Community Development until September 2021 to obligate at least 65 percent of this funding. After this date, Treasury would recapture excess funding and reallocate it back to the program.

To obligate this funding as quickly as possible, Housing and Community Development outsourced some of its programmatic responsibilities to a contractor and subrecipient. Housing and Community Development directed much of its efforts during the fiscal year towards interpreting the legislation and developing guidelines to comply with program requirements, and as such, did not have the time and resources necessary to establish and maintain internal control for certain program requirements. We believe the lack of necessary resources and time has contributed to the internal control weaknesses and matters of non-compliance described in the section titled "Internal Control and Compliance Findings and Recommendations."

Housing and Community Development was able to demonstrate that it established internal controls and materially complied with the program requirements of the LIHEA federal grant program and the CDBG Disaster Recovery Grants Pub. L No. 113-2 Cluster of programs. Housing and Community Development implemented these programs prior to the pandemic.

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## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### Emergency Rental Assistance (ERA)

#### **Complete FFATA Reporting for First-Tier ERA Subaward**

**Type:** Internal Control and Compliance

**Severity:** Material Weakness

**Repeat:** No

Housing and Community Development did not complete Federal Funding Accountability and Transparency Act (FFATA) reporting for the ERA federal grant program. During fiscal year 2021, Housing and Community Development disbursed approximately \$135 million in first tier subawards from the ERA federal grant program to a subrecipient. First-Tier subawards account for approximately 59 percent of the program's fiscal year expenses. Further, this report was the only federal report that was applicable to the ERA federal grant program during the period under review.

Title 2 U.S. Code of Federal Regulations (CFR) Part 170 Appendix A requires the non-federal entity to report each obligating action exceeding \$30,000 to the FFATA Subaward Reporting System (FSRS). Housing and Community Development did not report this information to FSRS because program personnel were unaware of this requirement. Not uploading obligating actions to FSRS could result in a citizen or federal official having a distorted view as to how Housing and Community Development is obligating federal funds.

Housing and Community Development should update its policies and procedures related to FFATA reporting to ensure it reports obligating actions to FSRS. Additionally, Housing and Community Development should periodically review FSRS to ensure that it contains the most recent award information.

#### **Obtain Assurance over Third-Party Service Provider's Internal Controls**

**Type:** Internal Control and Compliance

**Severity:** Material Weakness

**Repeat:** No

Housing and Community Development is not obtaining assurance over its third-party service provider's internal controls supporting eligibility determinations for the ERA program. Between February 2021 and June 2021, the third-party service provider determined eligibility for nearly 14,000 tenants which led to payment amounts totaling approximately \$92 million.

Topic 10305 of the Commonwealth Accounting Policies and Procedures Manual states that the agency must have adequate interaction with the service provider to gain an appropriate understanding of the service provider's control environment and maintain oversight over third-party service providers to gain assurance over outsourced operations. Further, 2 CFR § 200.303 states that non-federal entities must establish and maintain effective internal control over the federal award that provides reasonable

assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. Finally, 2 CFR § 200.501(g) states that auditees are responsible for ensuring compliance with procurement transactions and must review the contractor's records to ensure compliance.

While Housing and Community Development was able to demonstrate that it had adequate interactions with the third-party service provider, it was unable to provide evidence that it maintained oversight over third-party service providers to gain assurance over outsourced operations. Without doing such, Housing and Community Development is unable to assure itself that the third-party service provider is maintaining proper internal control over eligibility determinations and places itself at risk of having to return money to the federal government for noncompliance that could occur at the third-party service provider. Housing and Community Development was unable to gain assurance over outsourced operations because it did not have the time and resources to maintain oversight or review the third-party service provider's records for compliance.

Housing and Community Development recognizes this risk and is developing a plan to obtain assurance over outsourced operations. This plan includes, but is not limited to, transitioning third-party service provider data to Housing and Community Development, and performing spot checks to evaluate the accuracy of the data, including eligibility determinations. Housing and Community Development should continue developing and executing its plan for obtaining assurance over its third-party service provider.

**Complete and Document Risk Assessment for Subrecipient to Determine Extent of Monitoring**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Housing and Community Development did not complete and document the risk assessment for its ERA federal grant program subrecipient to determine the extent of monitoring necessary. In fiscal year 2021, Housing and Community Development advance funded its subrecipient \$135 million to implement a program to determine landlord eligibility and process payments to eligible applicants.

Title 2 CFR § 200.332(b) states that pass-through entities must evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. Housing and Community Development was able to demonstrate that it did implement subrecipient monitoring procedures such as the existence of a grant award agreement and recurring meetings to discuss the performance of the program. However, Housing and Community Development cannot provide evidence that it applied the proper amount of monitoring without a completed and documented risk assessment. Housing and Community Development was unable to complete and document a risk assessment for the subrecipient because it did not have the time and resources.

Housing and Community Development plans to formally document the risk assessment and evaluate whether it performed the necessary monitoring procedures for the subrecipient. It should also

consider placing guidance about risk assessments in its subrecipient monitoring policies and procedures to ensure it considers this requirement in the future.

**Obtain Assurance that Subrecipients are not Suspended or Debarred**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Housing and Community Development did not confirm that its subrecipient for the ERA program was not suspended or debarred before entering a covered transaction. In fiscal year 2021, Housing and Community Development advanced funded this subrecipient \$135 million to implement a program to determine landlord eligibility and process payments to eligible applicants.

Title 2 CFR § 180.200 states that covered transactions include contracts for goods and services awarded under a non-procurement transaction and requires the non-federal entity to verify that the party with whom it intends to do business is not excluded or disqualified when it enters a covered transaction with another party at the next lower tier. Title 2 CFR § 180.300 states that this can be accomplished by checking System for Award Management (SAM) Exclusions, collecting a certification from that party, or adding a clause or condition to the covered transaction with that party. While Housing and Community Development was aware of this requirement, it inadvertently overlooked this requirement during the sub awarding process. Housing and Community Development places itself at risk of entering a covered transaction with a suspended or debarred party by not evaluating this requirement before granting the subaward.

Housing and Community Development should update its policies and procedures to ensure it considers this requirement during the sub awarding process. Additionally, management should oversee the sub-awarding process to ensure it meets this requirement.

**Include Required Provisions in Contracts Supported with Federal Funds**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Housing and Community Development did not include provisions required by Appendix II of 2 CFR Part 200 (Uniform Guidance) in one of its contracts supported with federal funds. In September 2020, Housing and Community Development executed a contract with a vendor to provide call center support and determine applicant eligibility for the Virginia Rent and Mortgage Relief program. Housing and Community Development used funds from the ERA federal grant program to pay this vendor.

Title 2 CFR § 200.317 requires that states ensure that every purchase order or other contract includes any clauses required by 2 CFR § 200.327. 2 CFR § 200.327 requires that non-federal entities' contracts contain the applicable provisions described in Appendix II of Uniform Guidance. Housing and Community Development did not include the required provisions in the contract because it was not aware of this requirement. Not including this information in the contracts increases the risk of a

contractor not complying with a federal requirement and limits Housing and Community Development's ability to impose sanctions on the contractor if there is noncompliance. Housing and Community Development should update its procurement policies and procedures to ensure that it includes the required provisions in contracts supported with federal funding going forward.

### [Low-Income Home Energy Assistance \(LIHEA\)](#)

#### **Complete FFATA Reporting for First-Tier LIHEA Subawards**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Housing and Community Development did not complete FFATA reporting for the LIHEA federal grant program. During fiscal year 2021, Housing and Community Development disbursed approximately \$10 million in first-tier subawards to 18 different subrecipients. First-Tier subawards account for approximately 10 percent of the program's fiscal year expenses. Further, the LIHEA federal grant program has four required federal reporting requirements, and the Commonwealth demonstrated compliance with the three other federal reporting requirements.

Title 2 CFR Part 170 Appendix A requires the non-federal entity to report each obligating action, exceeding \$30,000, to the FSRS. Housing and Community Development did not report this information to FSRS because program personnel were unaware of this requirement. Not uploading obligating actions to FSRS could result in a citizen or federal official having a distorted view as to how Housing and Community Development is obligating federal funds.

Housing and Community Development should update its policies and procedures related to FFATA reporting to ensure it reports obligating actions to FSRS. Additionally, it should periodically review FSRS to ensure that it contains the most recent award information.

### [CDBG Disaster Recovery Grants Pub. L No. 113-2 Cluster \(CDBG-NDR\)](#)

#### **Submit FFATA Reporting Changes Timely**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Housing and Community Development did not submit a revision to its FFATA reporting for one of its CDBG-NDR subrecipients in a timely manner. Housing and Community Development modified the award terms and amount with one of its subrecipients receiving CDBG-NDR federal grant funds in June 2017. This obligating action increased the award amount by \$250,000, which represents a five percent increase from the original award amount.

Title 2 CFR Part 170 Appendix A requires that non-federal entities report each action to first tier subawards no later than the end of the month following the month in which the obligation was made. Housing and Community Development did not upload this action to the FSRS timely because of a management oversight and difficulties logging into FSRS. Not uploading changes to FSRS timely could result in a citizen or federal official having a distorted view as to how Housing and Community Development is obligating federal funds.

Housing and Community Development subsequently updated FSRS after this matter was brought to their attention. Housing and Community Development should update its policies and procedures related to FFATA reporting to ensure it reports actions to FSRS timely. Additionally, it should periodically review FSRS to ensure that it contains the most recent award information.



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 24, 2022

The Honorable Glenn Youngkin  
Governor of Virginia

The Honorable Kenneth R. Plum  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Emergency Rental Assistance federal grant program, Low-Income Home Energy Assistance federal grant program, and the federal CDBG Disaster Recovery Grants Pub. L No. 113-2 Cluster of programs**, administered by the Department of Housing and Community Development (Housing and Community Development), for the year ended June 30, 2021. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Single Audit. 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 objective was to audit the Emergency Rental Assistance federal grant program, Low-Income Home Energy Assistance federal grant program, and federal CDBG Disaster Recovery Grants Pub. L No. 113-2 Cluster of programs in support of the Commonwealth's Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system and Housing and Community Development's grants management systems. We reviewed the adequacy of Housing and Community Development's internal controls over compliance with applicable laws, regulations, contracts, and grant agreements.

## **Audit Scope and Methodology**

Housing and Community Development'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 materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the Emergency Rental Assistance federal grant program, Low-Income Home Energy Assistance federal grant program, and federal CDBG Disaster Recovery Grants Pub. L No. 113-2 Cluster of programs.

We performed audit tests to determine whether Housing and Community Development'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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel; inspection of documents, records, and contracts; and observation of Housing and Community Development's operations. We performed analytical procedures, including budgetary and trend analyses, and 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.

Our consideration of internal control over compliance was for the limited purpose described in the section "Audit Objectives" and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section titled "Internal Control and Compliance Findings and Recommendations," we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance in one of Housing and Community Development's federal grant programs will not be prevented or detected and corrected on a timely basis. We consider the deficiencies titled "Complete FFATA Reporting for ERA First-Tier Subaward" and "Obtain Assurance over Third-Party Service Providers Internal Controls," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," to be material weaknesses. The material weakness titled "Complete FFATA Reporting for ERA First-Tier Subaward" will result in a qualified opinion on compliance for the Emergency Rental Assistance federal grant program. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to this federal program.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies titled "Complete and Document Risk Assessment for Subrecipient to Determine Extent of Monitoring," "Obtain Assurance that Subrecipients are not

Suspended or Debarred,” “Include Required Provisions in Contracts Supported with Federal Funds,” “Complete FFATA Reporting for First-Tier LIHEA Subawards,” and “Submit FFATA Reporting Changes Timely,” which are described in the section titled “Internal Control and Compliance Findings and Recommendations,” to be significant deficiencies.

## **Conclusions**

We found that Housing and Community Development properly stated, in all material respects, the amounts recorded and reported in the Commonwealth’s accounting and financial reporting system and its grants management systems.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management’s attention and corrective action. These matters are described in the section titled “Internal Control and Compliance Findings and Recommendations.”

Since the findings noted above include those that have been identified as material weaknesses or significant deficiencies, they will be reported as such in the “Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance,” which is included in the Commonwealth of Virginia’s Single Audit report for the year ended June 30, 2021. The Single Audit report will be available at [www.apa.virginia.gov](http://www.apa.virginia.gov) in February 2022.

## **Exit Conference and Report Distribution**

We discussed this report with management on February 4, 2022. Management’s response to the findings and recommendations 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.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

MAS/clj



Glenn A. Youngkin  
Governor

Caren Merrick  
Secretary of  
Commerce and Trade

## COMMONWEALTH of VIRGINIA

Bryan W. Horn  
Director

### DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

February 9, 2022

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

Dear Mrs. Henshaw,

We have reviewed your report for audits of the Emergency Rental Assistance federal grant program, Low-Income Home Energy Assistance (LIHEA) federal grant program, and federal Community Development Block Grant (CDBG) Disaster Recovery Grants Pub. L No. 113-2 Cluster of programs, for the fiscal year ended June 30, 2021.

We concur with the findings and our corrective action plan will be provided in accordance with the Department of Accounts guidelines.

We appreciate your team's efforts and constructive feedback. Please contact Danielle Robertson, Chief Financial Officer, if you have any questions regarding our corrective action plan.

Sincerely,



Bryan W. Horn, Director



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**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

As of June 30, 2021

Erik Johnston, Director