



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 1, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

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

This communication is provided pursuant to the parameters of the 2009 Office of Management and Budget (OMB) pilot project. Such project requires auditors of entities that volunteer for the project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs having expenditures of American Recovery and Reinvestment Act of 2009 (ARRA) funding at an interim date, prior to the completion of the compliance audit. Accordingly, this communication is based on our audit procedures performed through November 30, 2009, an interim period. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

In planning and performing our audit through November 30, 2009 of CFDA#81.042 – Weatherization Assistance for Low Income Persons, we are considering the Department of Housing and Community Development’s compliance with activities allowed or unallowed, allowable costs and cost principles, cash management, eligibility, matching, level of effort, and earmarking, reporting, and sub-recipient monitoring as described in the *OMB Circular A-133 Compliance Supplement* for the year ended June 30, 2009. We are also considering the Department of Housing and Community Development’s internal control over compliance with the requirements previously described that could have a direct and material effect on CFDA#81.042 – Weatherization Assistance for Low Income Persons in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department of Housing and Community Development’s internal control over compliance.

Our consideration of internal control over compliance is for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity’s internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed through November 30, 2009, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity’s internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency or combination of control

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deficiencies that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance entitled "Continue Improving Fiscal Monitoring of Sub-recipients" to be a significant deficiency. This matter is described in the section entitled "Federal Findings."

A *material weakness* is a significant deficiency or combination of significant deficiencies that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not find any deficiencies in internal control over compliance that we consider to be material weaknesses.

The Department of Housing and Community Development's response to our findings is described in the section "Federal Findings." We did not audit the Department of Housing and Community Development's response and, accordingly, we express no opinion on it.

This interim communication is intended solely for the information and use of the Governor and General Assembly, management, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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FEDERAL FINDINGS

U.S. DEPARTMENT OF ENERGY

Continue Improving Fiscal Monitoring of Sub-recipients

The Virginia Department of Housing and Community Development (Housing) disburses nearly 90 percent of its funding to sub-recipients to administer as many as 16 federal programs. Housing provides guidance and monitors these sub-recipients. Our review found Housing needed to improve its federal grants management, specifically its sub-recipient monitoring.

With the passage of the American Recovery and Reinvestment Act (Act) in February 2009, Housing will need to increase the focus on several of Housing's grants, including the Weatherization Assistance Program (Weatherization). The Federal Government has identified Weatherization as a high-risk program due to the significant increase in funding and lack of grantees' capacity to manage these funds.

During our review of Weatherization, we noted that Housing was not conducting timely financial reviews of sub-recipients. Housing must review financial records and files for each of the 22 local Weatherization providers, including their federally required Single Audits. Housing did not conduct financial reviews of the local providers for at least six months during fiscal year 2009 because of staffing and personnel issues.

Beginning in fiscal 2010, Housing will use a portion of its stimulus funding to employ a position responsible for conducting fiscal reviews within its Division of Housing. In addition, Housing also recently assigned the review and tracking of Single Audits to another individual within the same division. This employee is working through Single Audits that Housing had not yet reviewed, and is tracking each provider's compliance, findings, and corrective action plans.

Housing should work to identify its critical processes and corresponding internal controls, and should document policies and procedures to support these controls. This will ensure that Housing is conducting adequate fiscal monitoring for its entire federal grant program that is in accordance with and meets the expectations set by the federal government.

Management Response:

To correct this situation beginning in fiscal 2010, DHCD has allocated a portion of its stimulus funding to fund a position responsible for conducting fiscal reviews within its Division of Housing. This position is currently under recruitment. In addition, DHCD has reassigned the review and tracking of Single Audits within the Division of Housing. DHCD has also begun to implement critical processes and corresponding internal controls, and document policies and procedures to support these controls to ensure that it is conducting adequate fiscal monitoring for its entire federal grant program and that this monitoring is in accordance with and meets the expectations of federal funders and their monitoring and program guidelines. In summary, we have increased our monitoring activities for all grant programs.