



Chesterfield County, Virginia Internal Audit

9901 Lori Road, Room 142 – P.O. Box 40 – Chesterfield, VA 23832
Phone: (804) 748-1240 – Fax: (804) 768-9346 – Internet: chesterfield.gov

DATE: April 8, 2020

TO: Joseph P. Casey, Ph.D. Chesterfield County
County Administrator Board of Supervisors

Mervin B. Daugherty, Ed.D. Chesterfield County
School Superintendent School Board

FROM: Khara L. Durden, CPA, CISA, CFE *K. Durden*
Director of Internal Audit

SUBJECT: CDBG & HOME Organizations and FY21 Applicants

BACKGROUND

The County's Department of Community Enhancement administers the Community Development Block Grant (CDBG) and Home Investment Partnerships (HOME) programs. These program funds are awarded annually from the United States Department of Housing and Urban Development (HUD). Portions of these funds are awarded to certain community organizations through the County. The County's CDBG and HOME program applicants are required to provide their most recent annual audit report. Awarded organizations are also required to provide the County with annual audit reports for the funding period (i.e., Federal compliance for subrecipient monitoring) within nine months or 90 days of their fiscal year (FY) end as specified in their contract with the County for FY20 or prior years, respectively. Community Enhancement provides Internal Audit with such reports received to perform a technical evaluation.

OBJECTIVES, SCOPE, AND METHODOLOGY

Attached is a list of organizations' annual audit reports received calendar year 2019 and that Community Enhancement provided to us for evaluation. We performed a technical evaluation of these reports and emailed results to Community Enhancement throughout the year, upon notification that such reports were received.

Our evaluation included consideration of the audit opinion, whether or not an audit of Federal financial assistance was performed, reported findings, and disclosures to identify potential concerns. An independent auditor's opinion regarding the financial statements as a whole may be either unmodified or modified. An unmodified opinion indicates the financial statements present fairly, in all material respects, the financial position in accordance with generally accepted accounting principles. There are three types of modified opinions: qualified, adverse, and disclaimer of opinion. In each case, the reason for such a modification is described in the auditor's report. We understand management is using this information as general reference for their financial monitoring of these organizations and evaluation of funding requests.

For organizations not submitting audited financial statements, we evaluated what they provided (e.g., accountant report or special purpose financial statements). These financial documents do not provide the same level of assurance as audited financial statements.

We believe our analysis provides an objective summary of financial reports provided to Internal Audit for evaluation. However, this evaluation does not constitute an audit conducted in accordance with generally accepted government auditing standards (GAGAS).

RESULTS SUMMARY

Community Enhancement provided 14 financial reports received in calendar year 2019 for evaluation; 10 from organizations previously awarded funds and two from new applicants being considered for FY2021 funding. Evaluation detail by organization is provided beginning on page three and noted:

- Unmodified CPA opinion (13 reports, including 1 special-purpose financial report)
- Provided report did not meet audited financial statement requirements (1 report)
- Provided report was not for the most recently completed fiscal year (5 reports)
- Audit findings, segregation of duties, reconciliation, and federal non-compliance (2 reports)
- CDBG funding excluded from Organization's audited financial statements (2 reports/1 entity)
- Required certification of federal grant expenditures was not provided (6 reports)
- Concentration risk, significant support from limited number of sources (6 reports)

We appreciate Community Enhancement's assistance during this project. Should you have any questions, or further assistance, please call Lora Holland or me at extension 1240.

Copy: Jesse Smith, Deputy County Administrator, Community Development
Daniel Cohen, Director of Community Enhancement
Kathleen Thompson, CDBG and HOME Grants Administrator

#	Organization Name (Evaluation Results Provided to Community Enhancement ²)	FY2021 Request	FY2020 Award	FY2019 Award	Financial Statement Period	Unmodified CPA Audit Opinion [Y/N]	Federal Compliance Audit ¹ [Y/N]	Audit Findings (financial report page #) [Y/N]	Potential Concerns/ Further Details
PREVIOUS AWARDS:									
1	Better Housing Coalition (3/17/2020)	\$385,000	-	\$230,000	12/31/2018	Y	N ⁴	N	Required FY18 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 12/31/2018 financial statements from a CPA.
2	BizWorks Enterprise Center (8/14/2019)	-	-	-	6/30/2018	Y	N/A ³	N	Required FY18 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 6/30/2018 financial statements from a CPA. There were no audit findings, but the financial statements Note 5 (p. 9) discloses concentration risk due to 61% of revenue coming from Chesterfield County through CDBG.

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PREVIOUS AWARDS:									
3	Communities in Schools of Chesterfield (8/14/2019)	\$45,000	\$40,000	\$25,000	6/30/2017	Y	N/A ³	N	<p>Required FY18 report was not provided and FY17 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 6/30/2017 financial statements from a CPA.</p> <p>There were no audit findings, but CDBG funding was excluded from the audit report. Financial statements Note D (p. 12) discloses Chesterfield County Public Schools (CCPS) administered their \$25,000 grant, which is not in the Communities in Schools (CIS) financial statements.</p> <p>In addition, Note D describes CCPS provided \$552,000 of CIS' salaries and benefits and office facilities valued at \$104,040 for FY17. The combined \$656,040 is 40% of total FY17 expenses.</p>

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PREVIOUS AWARDS:									
4	Communities in Schools of Chesterfield (3/17/2020)	\$45,000	\$40,000	\$25,000	6/30/2018	Y	N ⁴	N	<p>Required FY19 report was not provided and FY18 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 6/30/2018 financial statements from a CPA.</p> <p>There were no audit findings, but CDBG funding was excluded from the audit report. Financial statements Note D (p. 12) discloses Chesterfield County Public Schools (CCPS) administered their \$25,000 grant, which is not in the Communities in Schools (CIS) financial statements.</p> <p>In addition, Note D describes CCPS provided \$552,000 of CIS' salaries and benefits and office facilities valued at \$104,040 for FY18. The combined \$656,040 is 40% of total FY18 expenses. Also, CIS had a balance due to CCPS of \$28,441, as of June 30, 2018.</p>

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PREVIOUS AWARDS:									
5	Homeward (8/14/2019)	\$10,000	\$10,000	\$5,000	6/30/2018	Y	N/A ³	N	<p>Required FY18 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 6/30/2018 financial statements from a CPA.</p> <p>There were no audit findings, but the financial statements Note 1 (p. 11) discloses concentration risk due to 13% of revenue and 84% of contributions and grants receivable coming from one and three grantors, respectively.</p>
6	Homeward (3/17/2020)	\$10,000	\$10,000	\$5,000	6/30/2019	Y	N ⁴	N	There were no audit findings, but the financial statements Note 4 (p. 9) discloses concentration risk due to 48% of funding coming from Housing and Urban Development and Department of Housing and Community Development grants, and 70% of outstanding grants receivable coming from two grantors.
7	HumanKind (3/17/2020)	\$15,000	\$15,000	-	12/31/2018	Y	Y	N	

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PREVIOUS AWARDS:									
8	Jefferson Davis Association (9/13/2019)	-	-	\$25,000	6/30/2019	N	N/A ³	N	<p>Provided report did not meet audited financial statement standards, which require performance by a CPA.</p> <p>The Accountant noted some errors that occurred during FY19, including mistaken use of their debit card (\$35.80), missing supporting documentation for an expense (\$813.60), failing to issue IRS Form 1099-Misc to an organization, and posting an expense to the wrong fiscal year.</p> <p>Additional noted issues included: (1) inadequate segregation of duties in recording, processing, reconciling, and reporting of cash and other transactions in the accounting records and (2) bank accounts and credit card statements not reconciled monthly.</p>

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PREVIOUS AWARDS:									
9	Local Initiatives Support Corporation (3/17/2020)	\$85,000	\$65,000	-	12/31/2018	Y (CPA Audited Special- Purpose Financial Statements)	N ⁵	N	<p>The Auditor's Report (p. 2 - 3) is on special-purpose financial statements prepared in accordance with financial reporting provisions of the Loan or Special-Purpose Report Agreements between the Organization and certain lenders. Report use is restricted to parties knowledgeable of the Loan or Special-Purpose Report Agreements. Such parties do not include Chesterfield County.</p> <p>Financial statements Note 1 (p. 8) discloses the special-purpose financial statements are not intended to present financial position in conformity with U.S. GAAP, and that consolidated financial statements were expected to be issued by June 30, 2019. The organization did not provide audited consolidated financial statements, including a federal compliance audit report, as done in the prior year.</p> <p>Financial statements Note 5 (p. 17) discloses concentration risk due to 18% of contribution receivable and 55% of contribution revenue coming from one and five donors, respectively. Further, Note 6 (p. 17) discloses that 44% of government grants and contracts receivable and 35% of government grants and contracts revenue were from one government agency.</p>

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PREVIOUS AWARDS:									
10	Maggie Walker Community Land Trust (10/8/2019)	\$300,000	-	\$500,000	12/31/2018	Y	N/A ³	N	<p>Required FY18 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 12/31/2018 financial statements from a CPA.</p> <p>There were no audit findings, but the financial statements Note 5 (p. 9) discloses they received no CDBG grant funding during the year ended December 31, 2018. The \$500,000 of CDBG funding awarded July 1, 2018 will be provided by the County on a cost reimbursement basis and recorded as revenue in the year qualified homes are sold.</p>
11	Rebuilding Together of Richmond (8/14/2019)	\$150,000	\$120,000	\$120,000	6/30/2018	Y	N/A ³	N	<p>Required FY19 report was not provided and required FY18 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 6/30/2018 financial statements from a CPA.</p> <p>There were no audit findings, but the financial statements Note 5 (p. 12) discloses concentration risk due to 85% of contributions receivable and 39% of revenue and support coming from one and two contributors, respectively.</p>

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PREVIOUS AWARDS:									
12	Richmond Metropolitan Habitat for Humanity (3/17/2020)	\$220,000	\$120,000	\$99,000	6/30/2019	Y	N ⁴	N	Required FY19 report was not provided timely (i.e., within 90 days of their fiscal year end). However, they received a CLEAN/unmodified audit opinion on their 6/30/2019 financial statements from a CPA.

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NEW APPLICANTS:									
1	Gateway Homes (3/17/2020)	\$100,000	-	-	9/30/2018	Y	N ⁴	N	There were no audit findings, but the financial statements Note 2 (p. 11) discloses concentration risk due to 6%, 52%, and 14% of resident fees coming from Medicaid, two Virginia counties, and one state agency, respectively.
2	Virginia Supportive Housing (3/17/2020)	\$250,000	-	-	12/31/2018	Y	Y	Y (p. 37)	A federal audit finding was noted for a Continuum of Care Program unit's non-compliance with Housing Quality Standards.

Footnote(s):

¹Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) establishes the compliance audit requirements for organizations expending \$750,000 or more in Federal financial assistance.

²Upon notification of CDBG & HOME organization and applicant financial statements received, Internal Audit evaluated the financial statements and provided results to Community Enhancement.

³Organization is not subject to a Uniform Guidance audit per either confirmation from the organization or review of financial statements showing the Federal financial assistance audit threshold was not met.

⁴Organization did not certify their federal grant expenditures were below the audit threshold of \$750,000, as required per FY21 RFP/Application Instructions when a federal compliance audit report is not provided. However, we believe they are not subject to a Uniform Guidance audit¹ per review of their financial statements.

⁵Organization did not certify their federal grant expenditures were below the audit threshold of \$750,000 (Title 2 CFR Part 200, Subpart F), as required per FY21 RFP/Application Instructions when a federal compliance audit report is not provided. We believe they may be subject to a Uniform Guidance audit per review of their financial statements.