Office of the City Auditor

# Audit of the Virginia Beach Community Development Corporation

Report Date: June 14, 2019

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, Virginia 23456
757.385.5870

*"Promoting Accountability and Integrity in City Operations"*

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|---|---|
| Lyndon Remias, CPA | City Auditor |
| Tony Gonzalez, CPA, CIA, MBA | Senior Auditor |

**www.vbgov.com/cityauditor**

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, VA 23456
Telephone: 757.385.5870 Fax: 757.385.5875

Fraud, Waste, and Abuse Hotline 757.468.3330

# Office of the City Auditor
# Transmittal Letter

Date: June 14, 2019

To: Jessica Guglielmo, VBCDC Interim President and Chief Executive Officer

Subject: Audit of the Virginia Beach Community Development Corporation

I am pleased to present the report of our audit of the Virginia Beach Community Development Corporation (VBCDC). This audit addresses the efficiency and effectiveness of VBCDC in its fulfillment of its Strategic Plan. VBCDC is a component unit of the City of Virginia Beach.

Findings considered to be of insignificant risk have been discussed with management. We completed our fieldwork on May 3, 2019.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all other City departments. This report is intended solely for the information and use of the City Council, Audit Committee, City Manager's Office, Department of Housing and Neighborhood Preservation, and VBCDC's Board of Directors. It 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.

We would like to thank the management and staff of VBCDC for their cooperation and responsiveness to our requests during our audit and their receptiveness to questions, recommendations, and suggestions.

If you have any questions about this report, or any audit-related issue, I can be reached at 385-5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias

Lyndon S. Remias, CPA
City Auditor

c: City Council Members
Audit Committee Members
David L. Hansen, City Manager
Ronald H. Williams, Jr., Deputy City Manager
Andrew M. Friedman, Director, Department of Housing and Neighborhood Preservation
VBCDC Board of Directors
Kim Johnson, CPA, VBCDC Vice-President and Chief Financial Officer

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## Purpose

Determine the efficiency and effectiveness of VBCDC in its fulfillment of its Strategic Plan.

## Scope and Objectives

The scope of the audit was from July 1, 2015 to April 30, 2019.

The objectives of the audit were to:

1. Evaluate operational performance of VBCDC's goals relating to maintaining financial stability, serving more neighbors in new ways, and attracting and retaining the best and brightest talent.
2. Determine whether VBCDC's continued relationship with Second Act Communities is advantageous to VBCDC's mission.

## Methodology

To accomplish our objectives, we performed the following:

- Obtained and reviewed current and prior years' financial statements, reports, policies, emails, Board of Directors (Board) meeting minutes, and other relevant documentation.
- Performed various analysis to identify patterns and trends particularly those relating to revenues, expenses, and business practices.
- Reviewed expenses in detail to assess appropriateness relative to VBCDC's goals and current financial situation.
- Interviewed management, staff, and Board members to learn more about the company and its processes.
- Attended Board meetings to learn about the topics discussed and the conduct of the meetings.
- Conducted a confidential survey of employee morale and perceptions about management and the organization.
- Assessed the benefits of VBCDC's continuing relationship with related entity Second Act Communities.
- Made recommendations, as appropriate, to ensure compliance with policies, improve processes, and increase efficiency.

## Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, and appropriate management within the City of Virginia Beach. This report will also be made available to the public.

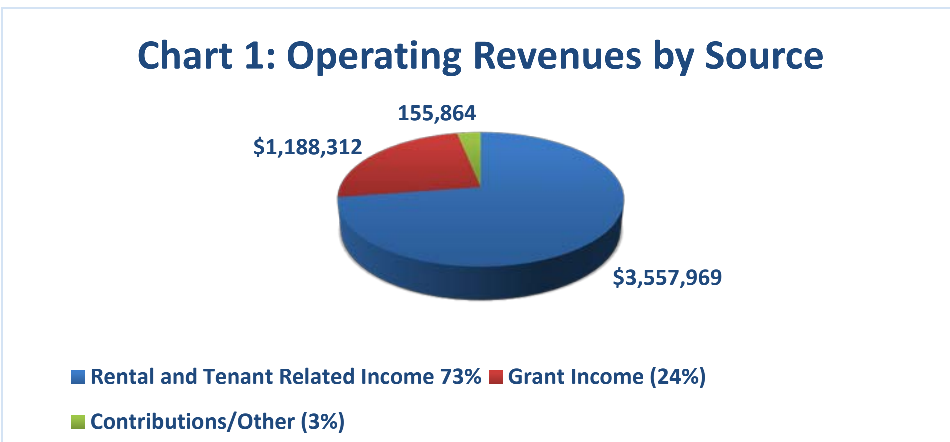
## Background[1]

The Virginia Beach Community Development Corporations (VBCDC) is a 501(c)(3) nonprofit housing development corporation operating in the City of Virginia Beach (City). In September 1985, the Virginia Beach City Council (City Council) created VBCDC to assist in the revitalization of targeted neighborhoods, develop new affordable housing, and rehabilitate existing housing and make it affordable. Many of its projects are coordinated with the City Department of Housing and Neighborhood Preservation (DHNP) and the Department of Human Services (DHS).

City Council appoints volunteer members to VBCDC's Board and provides both direction and policy oversight to the organization. City Council must also approve all changes to its by-laws. The table and charts below summarize the 2018 financial results. **Please note the revenue and expenses reported are VBCDC funds and not City revenue or expenses.**

| Table 1: Summary of Financial Performance FY 2018 | | |
|---|---|---|
| Total Operating Revenues | $ | 4,902,145 |
| Total Operating Expenses | $ | 6,470,604 |
| Operating Loss | $ | (1,568,459) |
| Non-Operating Revenues | $ | 655,540 |
| Change in Net Position | $ | (912,919) |

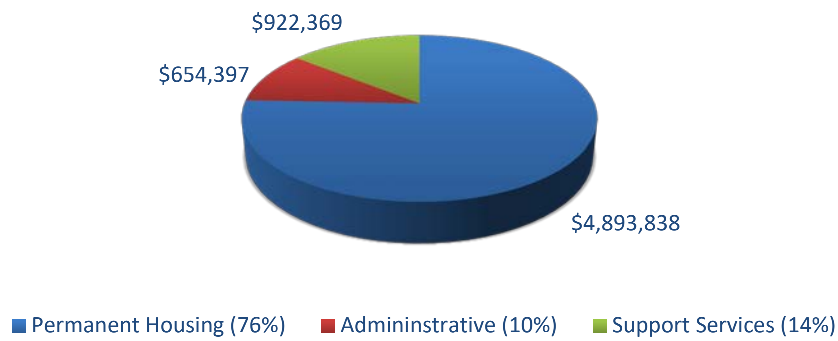
*Source: VBCDC 2017/2018 Financial Statements*




*Source: VBCDC 2017/2018 Financial Statements*

[1] Information taken from various sources, such as VBCDC Strategic Plan, DHNP presentations, and financial statements.

**Chart 2: Operating Expenses by Functional Category**




*Source: VBCDC 2017/2018 Financial Statements*

VBCDC has multiple financial relationships with the City, and its financial results are included in the City's Comprehensive Annual Financial Report (CAFR) as a component unit because of the City's appointment of the Board, which gives the City the potential to impose its will on VBCDC. If VBCDC ceases to exist, the assets provided by the City must be returned to the City. Currently, the City has liens remaining on 83 of VBCDC properties, the total value of which is $8.1M.

VBCDC has three wholly owned subsidiaries established for the purpose of purchasing and/or acting as general partners in housing development partnerships. See Table 2.

**Table 2: VBCDC Wholly-Owned Subsidiaries**

| Subsidiary Name | Partnership | Property |
|---|---|---|
| Beach Properties, Inc. | General partner in the limited partnership Citywide Homes 2001, L.P. | 32 single–family homes |
| Vets' Housing, Inc. | General partner in the limited partnership Cedar Grove 2011, L.P. | One apartment complex (32 units) |
| Cornerstone Property Ventures, LLC | Not a partnership | Grand Cypress Apartments (55 units) |

*Source: VBCDC 2017/2018 Financial Statements*

VBCDC and its former affiliate, Second Act Communities (SAC), received Federal funding assistance passed through the City for housing development projects (see Table 3). The background on SAC and its relationship with VBCDC is discussed in a separate section below.

**Table 3: Funding for VBCDC and SAC (1986 to Present)**

| Activity | VBCDC | SAC | Total |
|---|---|---|---|
| Acquisition & Rehab of Scattered Site Housing | $ 7,233,264 | $ 3,933,043 | $ 11,166,307 |
| Administration and Operations | $ 893,453 | $ 636,603 | $ 1,530,056 |
| Homeownership | $ 1,455,540 | | $ 1,455,540 |
| Rehab of Rental Housing Already Owned | $ 1,615,322 | | $ 1,615,322 |
| Transition Housing for Homeless Families | $ 3,005,917 | | $ 3,005,917 |
| Cedar Grove Apartments for Homeless Veterans | $ 455,449 | | $ 455,449 |
| Biznet for People with Disabilities | $ 770,000 | | $ 770,000 |
| Emergency Shelter and Homeless Info Systems Funding | $ 229,812 | | $ 229,812 |
| Homeowner Rehabilitation Program | $ 1,140,811 | | $ 1,140,811 |
| Total | $ 16,799,568 | $ 4,569,646 | $ 21,369,214 |

*Source: DHNP Federal Funds Briefing to City Council on January 5, 2018 but updated to include information provided by VBCDC. The information presented is approximate due to its age and the use of multiple sources to compile the data.*

## VBCDC's History

In 1987, the first programs began operating. In partnership with the DHNP and the Citizens Advisory Committee[2], VBCDC constructed and sold homes to low and moderate-income buyers in several of the City's target neighborhoods.

From VBCDC's inception and for several years thereafter, the City provided 100% of the funding for all aspects of its operation, since VBCDC did not have any independent source of funds. The City provided funding to enable VBCDC to operate, obtain grant funds, and acquire property. This made it possible for VBCDC to obtain multiple sources of revenue and eventually become self-sustaining. Over time, City funding continually decreased, and the goal has been achieved. As of today, the City does not provide ongoing operating funding to VBCDC, although there are several fee-for-service contracts in place.

Also in 1987, VBCDC's Transitional Housing Program began with a house donated by the City. This is a Housing and Urban Development (HUD) program that serves families needing temporary housing and supportive services as they transition out of homelessness and into permanent housing. VBCDC ended its participation in this program on June 30, 2017.

[2] The Citizens Advisory Committee was composed of representatives from the 12 target neighborhoods that were planned for development by City Council. DHNP met with the Committee monthly from 1986 until 1995, when the work on the target neighborhoods were essentially completed.

Figure 1: VBCDC built/sold scattered site housing

The Transitional Housing program was developed using a scattered site model, which would continue to be used as a basis of design for rental housing developments for the next 15 years. The scattered site strategy was attractive for many reasons. In the late 1980s and early 1990s, there was a growing number of HUD, Department of Veterans Affairs (VA), and bank-owned foreclosures in the City. These vacant and poorly maintained properties were blighting neighborhoods and impacting the value of the housing stock. By purchasing and rehabilitating scattered site foreclosures, VBCDC helped to stabilize and revitalize neighborhoods in the City and provide quality affordable housing.

By 1996, over 60 homes had sold since the inception of VBCDC's Homeownership Program. It entered its first joint venture project with the Virginia Beach Community Services Board. VBCDC assumed the ownership, mortgages, and management of two small multi-family apartment buildings, Atlantis Manor and Beach Park, which serve adults with mental illness disabilities. DHS provides supportive services to these individuals and VBCDC owns and maintains the buildings.

By the year 2001, VBCDC's portfolio of properties had grown to over 150 rental-housing units, and it had sold over 100 homes to first time low to moderate income homeowners. Additionally, VBCDC's operating budget, which at one time had been 100% grant funded, was now only 30% funded with governments grants. The remaining 70% of the revenue at this time was largely from rental income with a small percentage earned from developer fees and private contributions. Rental housing development had clearly emerged as a successful strategy to fulfill VBCDC's mission and to become less dependent on grant income. VBCDC received its first allocation of Low Income Housing Tax Credits (LIHTC) for the acquisition and rehabilitation of 32 single-family homes in the Citywide Homes 2001 program.

VBCDC recognized a need to shift new development projects from a scattered site model to a model of multi-family development to increase efficiency in maintaining the properties. Over the next decade, it developed two small award-winning multi-family developments to include an Intermediate Care Facility and a 10-unit multi-family development, both in partnership with DHS.

In 2011, VBCDC received its second allocation of LIHTC for the development and construction of 32 units of permanent supportive housing for homeless and disabled veterans. This development called Cedar Grove Apartments was co-developed with SAC and partially funded by the City.

Figure 2: Cedar Grove Apartments

It celebrated its grand opening in October 2013.

In 2014, VBCDC was awarded the contract to administer the Homeowner Rehabilitation Program for the City. Through this program, the City provided eligible homeowners low-interest loans to make home repairs, emergency repairs, and façade improvements. VBCDC qualifies the homeowners, prepares loan closings, provides work write-ups, and manages the contractors and their work. The contract amount for FY 2015 was $651,668. VBCDC ended its participation in this program on December 31, 2016.

In July 2014, VBCDC's first Executive Director retired, and the search for the new leadership position was advertised as Chief Executive Officer (CEO). On August 2014, VBCDC hired its CEO, who relocated from Chicago, IL.[3]


In 2015, the Board approved management's five-year Strategic Plan, which has three strategic themes:

- VBCDC will serve more neighbors in new ways
- VBCDC will remain financially sustainable
- VBCDC will attract and retain the best and brightest talent for its staff and Board

Today, VBCDC:

- Owns and operates 443 units of housing for low-income individuals and families, persons with developmental and mental health disabilities, homeless families and individuals, and homeless and disabled veterans.
- Has a total property value of $26,874,663, net of accumulated depreciation.[4]
- Long-term debt from mortgages is $19,742,093.[5] $5.2M of the debt relates to the purchase of Grand Cypress Apartments in 2016.
- Annual budget for FY 2019 was $5,450,607.
- Has a staff of about 31 full-time employees (FTEs).

VBCDC has two potential projects that are underway in partnership with the City:

- Rehabilitation of Beach Park, a 10-unit apartment complex that serves residents who receive services from the DHS. The funding will come from the City's HOME Investment

[3] The CEO resigned effective May 31, 2019, the Board placed her on administrative leave beginning close of business May 2, 2019. The Board designated the Chief Operating Officer (COO) to serve as Interim CEO on May 2, 2019.
[4] As of June 30, 2018 Balance Sheet
[5] As of June 30, 2018 Balance Sheet

Partnership Program (HOME) or the Community Development Block Grant (CDBG) allocations from HUD and will be leveraged with some replacement reserve funds.

- Potential purchase of Morgan Trace Apartments, a 24-unit complex near Birdneck Road. The project's feasibility is still being assessed. Should the project move forward, funding will also come from HOME or CDBG sources.

In addition to the housing programs owned and operated by VBCDC, it operates other programs and services. The Veterans First program provides a permanent rental-housing subsidy with comprehensive case management and advocacy for homeless and disabled veterans. The Support Services for Veterans Families program provides homeless prevention, rapid re-housing, intensive case management, and advocacy for homeless and at-risk veterans and their families.

**Second Act Communities**

In 1992, VBCDC created an affiliate nonprofit organization known today as Second Act Communities. SAC was created to receive a special allocation of funding under the Federal HOME program for organizations meeting the Community Housing Development Organization (CHDO) requirements. However, since 2016, SAC has not received any CHDO funding because it did not have any projects in the City. Instead, CHDO funding was awarded to other CHDO organizations, namely Habitat for Humanity and Community Alternatives.

Between 1992 and 2010, SAC acquired and rehabilitated properties then transferred ownership and mortgages to VBCDC to lease, manage, and maintain as affordable housing. For this reason, SAC has limited resources to have its own employees, facilities, line of credit, and bank financing. Currently, SAC has 11 rental properties, maintained by VBCDC employees.

In July 2016, SAC officially separated from VBCDC in order to fully comply with CHDO entity requirements and expand housing development opportunities outside Virginia Beach, but it remained a related entity. SAC is governed by its own Board and managed by VBCDC executives who hold the same positions in SAC. Although separated, SAC remains as a related party of VBCDC in that:

- VBCDC provided a grant of $528,784 to fund its operations in 2016. This is one of the causes for VBCDC's large deficit in 2016.

- VBCDC is the guarantor of SAC's Cypress Landing Apartment's construction loan for $4.25M.

- Both parties entered into a Shared Services Agreement in which VBCDC acts a contractor of SAC. The agreement stipulates that VBCDC is to provide professional services (e.g., administrative, maintenance) for a fee of 125% of the stated hourly rate of each VBCDC employee, an additional 10% of the professional services fee as compensation for the use of VBCDC's office facilities and computer networks, and interest for any past due amounts owed to VBCDC.

- VBCDC records all SAC receivables in the "Due from Affiliate" general ledger account until June 30, 2018. SAC pays down the balance whenever it receives its developer fee revenue installments from the Cypress Landing Apartments project. As of May 15, 2019, the balance in this account was $424K.

- In return for VBCDC's assistance, both parties entered into an agreement for VBCDC to manage the 50-unit Cypress Landing Apartments for two years once completed in FY 2020 at a fee 7.9% of gross collections.

# Results

Management has not been effective in accomplishing the critical goals of VBCDC's five-year Strategic Plan. Now on its fourth year, management has not provided evidence that it closely monitored the plan's progress. Below, we address the issues that we found during our audit related to the three Strategic Goals, as well as VBCDC's relationship with SAC. The findings are grouped in the following sections:

**I. Remain Financially Sustainable (Goal 1)**
**II. Serve More Neighbors in New Ways (Goal 2)**
**III. Attract and Retain the Best and Brightest Talent (Goal 3)**
**IV. VBCDC and SAC's Business Relationship**

## I. Remain Financially Sustainable


The business practices of VBCDC over the last three fiscal years have resulted in a significant and increasing operational loss trend that is likely to have long-term adverse effects on its mission to provide affordable housing opportunities in the City of Virginia Beach.

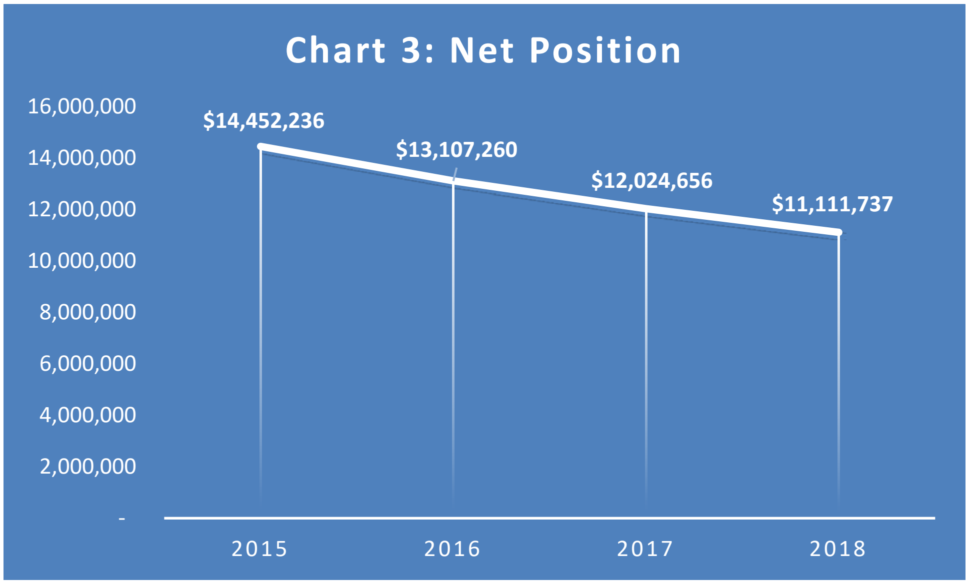
**Finding 1: Financial Losses Mounting**
Audited financial statements show a three-year operational loss average of $1.5M. Cumulative losses have reduced VBCDC's net position by $3.3M, from $14.5M in FY 2015 to $11.1M in FY 2018, a substantial loss of 23% or almost one-fourth of its value in three years.[6] See Table 4 and Chart 3).

**Table 4 : Summary Of Financial Results**

| Fiscal Year | Operating Income/(Loss) | Net Position at Year-End |
|---|---|---|
| **2015** | $ 320,304 | $ 14,452,236 |
| **2016** | $ (1,454,662) | $ 13,107,260 |
| **2017** | $ (1,435,433) | $ 12,024,656 |
| **2018** | $ (1,568,459) | $ 11,111,737 |

*Source: Audited financial statements for fiscal years 2015 to 2018*

[6] If the gain on sale of appreciated assets were not included, the net position would have been down to $10.4M, resulting in an even higher loss in value of 28%.




*Source: Audited financial statements for fiscal years 2015 to 2018*

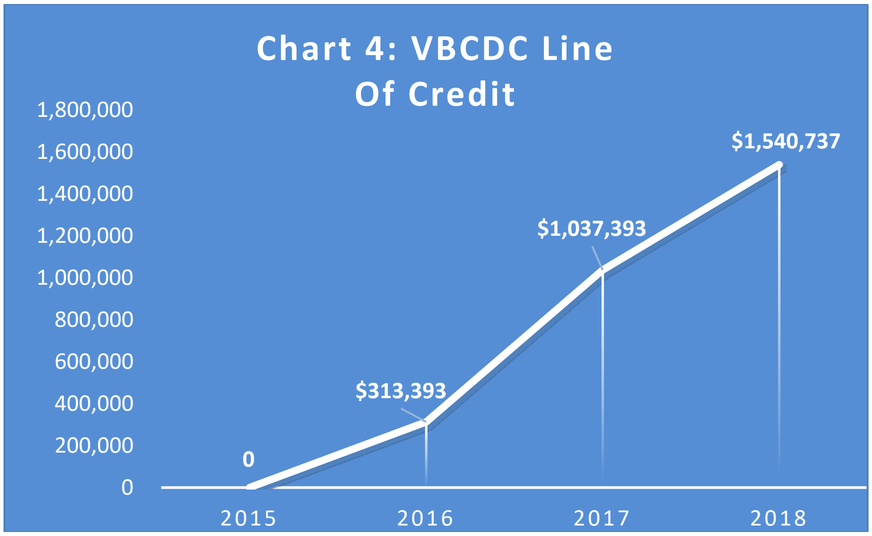
At the September 2018 Board meeting, VBCDC's external audit firm discussed the continued significant decline in VBCDC's net position. Minutes from the meeting state: *"However, with the need to update property and this being the second year of a decrease in net position, she advised the Board to be aware of cash flow and financial position to keep the organization operational."*

During the three-year period:

- Total revenues fell largely due to the discontinuation of the Transitional Housing Program and the Homeowner Rehabilitation Program grants, the loss of HUD'S New Opportunities in Affordable Housing (NOAH) vouchers, and the conclusion of the developer fees from the Cedar Grove Apartments project.
- Total expenses rose due to a $529K grant given to SAC, as well as increasing property maintenance/rehabilitation, interest, contractor/consultant fees, and overall general and administrative expenses.

To help finance normal operations, funds generally reserved for housing development opportunities were used, which resulted in VBCDC's inability to compete with its peers:

- Prior years' retained earnings of $343K were depleted
- Seven revenue-producing assets were sold (with one more under contract to be sold), and
- A Line of credit (LOC) was used to fund operations and has since risen sharply. See Chart 4.




*Source: Audited financial statements for fiscal years 2015 to 2018*

**Recommendation:**

1. Take immediate actions to stop the operating loss trend. Management needs to develop an integrated, long-term action plan that addresses immediate and deep cost reductions of nonessential elements and significantly increase revenues to improve VBCDC's financial standing.

**Finding 2: No Concrete Plans in Place to Address Financial Losses**

Despite experiencing an average yearly deficit of $1.5M in the past three fiscal years, management has not yet developed any concrete plans to reverse this trend. Management was unable to provide us with critical plans or analysis that would change the direction of VBCDC, such as:

- Analysis on new grants to increase revenues.
- Analysis on new development/acquisitions to increase revenues.
- Analysis to increase turnaround rate of rental properties to increase revenues.
- Analysis of staffing requirements to decrease costs.
- Analysis to effectively reduce overall operating expenses.

Besides not having concrete plans to address the losses, we saw examples of expenses and financial decisions that are contributing to the losses or has increased VBCDC's financial exposure. For example:

- In 2016, VBCDC provided a grant of $528,784 to SAC to help fund SAC's operations. This is one of the causes for VBCDC's large deficit in 2016.

- VBCDC is the guarantor of SAC's Cypress Landing Apartment's (located in Chesapeake, VA) construction loan for $4.25M. In addition, as of May 15, 2019, SAC owes VBCDC $424K for services performed under the Shared Services Agreement.

- VBCDC is also facing the maturation of $5.2M of notes payable debt. VBCDC acquired the Grand Cypress Apartments in 2016 with short term financing with the realization that the loans would be refinanced upon maturity in 2021 ($2.2M) and 2022 ($3M). Management's plan is to refinance the loans with long-term financing. However, financing is contingent upon the strength of VBCDC's financial position.

- VBCDC incurs considerable payroll costs in its 24/7 front desk and security personnel staffing at Cedar Grove Apartments. VBCDC had to sell one revenue-producing property and used $75K of the proceeds to cover salaries for 18 months, which will end on June 2019. An additional property is under a sales contract to further fund this payroll. Selling revenue-producing assets to cover operational needs is clearly unsustainable, and management needs to determine an alternative.

- Two fundraising events held resulted in losses. Total revenues from both events was budgeted at $250K, but the actual result was a $46K loss, a $296K difference. We believe that this was due to inadequate planning and unrealistic expectations. Management was unable to provide us with adequate support that evaluated the risks, financial budget, budget-hours, and lessons learned (from the first event). Besides the monetary losses, VBCDC spent countless hours of compensated employee time. See Table 5.

**Table 5 - Results of Fundraising Events**

| Event | Date | Revenue | Expenses | Gain/(Loss) | Comments |
|---|---|---|---|---|---|
| **Top Golf** | 9/22/2017 | $ 24,740 | $ 39,708 | $ (14,968) | |
| **Spring Gala** | Cancelled | - | $ 30,750 | $ (30,750) | Cancelled due to lack of interested donors |
| | **Totals** | $ 24,740 | $ 70,458 | $ (45,718) | A $296K difference from the budgeted revenue of $250K |

***Note:*** *Losses were equally divided between VBCDC and SAC*

- Despite the anticipation of deficits since 2014, management decided to convert a revenue-producing property to a community gathering and mentoring place called The Spot. While in-line with VBCDC's services, it is not mission essential and directly affects finances. Especially during times of financial hardship, it is management's duty to conserve funds and tighten discretionary spending so that it can continue with its mission; and in this case, providing quality affordable housing opportunities. Planning for The Spot took two years, but it was operational for only seven months because it was never fully utilized by the community. The total direct loss was $67K (including rental revenue) plus countless hours of compensated employee time.

- We found at least 20 violations of the Travel Reimbursement Policy. Policy spending limits for rental cars and hotel accommodations, charged through corporate credit cards for employee and consultants' travels, were exceeded, as well as a prevalence of non-submission of itemized receipts. A few examples:

    - The Human Resources (HR) Director rented a car for three days, from November 29, 2017 to December 1, 2017, for $54 per day when the policy daily limit was $30. There was no prior approval for the expense.

    - The CEO paid $54 for dinner on September 12, 2017, but the policy limit was $28. The policy follows the U.S. General Services Administration Guidelines (GSA) per diem rates. Per the policy requirement, the itemized receipt was not submitted.

    - The CEO's overnight stay at the Omni Richmond Hotel on February 21, 2018 cost $311. The policy limit was not to exceed $170 without prior written approval. There was no prior approval for the expense.

- Expense reports were not completed and many expenses had incomplete or inadequate supporting documentation. Thus, we had much difficulty determining the purpose and validity of the charges, the total amount spent, and whether the expenses were for VBCDC or SAC's behalf. This was especially true for the CEO's corporate credit card charges. The CEO's credit card charges totaled $79K, from January 2016 to October 2018. The Finance Department had constant difficulty accounting for expenses, as they did not have expense reports or adequate supporting documentation. *Note: The CEO cancelled her corporate credit card in October 2018.*

**<u>Recommendation:</u>**

2. Develop concrete plans to stop and reverse the operating loss trend by evaluating and analyzing operations where VBCDC can reduce costs and increase revenues, to include:
    - Staffing requirements
    - Turnaround rate of rental properties
    - Travel and administrative expenses

**Finding 3: Internal Controls Over Storeroom Supplies Need to be Enhanced**

Internal controls are not in place to deter potential theft and control the rising property maintenance and rehabilitation costs. We found the following deficiencies in the supply and equipment storeroom:

- Access to the storeroom was not restricted. The Asset Management Director estimates that the storeroom has $15K in supplies and another $15K in tools, at any given time.
- There was no checkout process for supplies and equipment.
- The periodic inventory count was not effective due to the access and checkout deficiencies mentioned above.

In addition, there were other areas where corporate policies need to be updated to enhance internal controls:

- **Code of Conduct** – The code of conduct policy needs to be updated to include the topic of confidential reporting of ethical issues to management or to the Board. The update should also include a non-retaliation clause, which prohibits retaliation of any kind against employees who have made good faith reports of ethical violations.
- **Replacement Reserve Policy** – This policy establishes monetary requirements to address future rental property rehabilitation costs, potential shortages, and vacancy reserve needs. It has been 23 years since this policy was developed. Management may need to reassess the applicability of reserve percentages in accordance with VBCDC's current assets and overall financial situation.

**Recommendations:**

3.1 Strengthen internal controls over issuance, storage, and access over property maintenance supplies and equipment.

3.2 Update the Code of Conduct.

3.3 Update the Property Replacement Reserve Policy.

## II. Serve More Neighbors


VBCDC has not been able to achieve its goal of serving more neighbors. We noted the following:

**Finding 4: Unable to Develop or Acquire Properties**

The number of developed and/or acquired properties is well below the Strategic Plan's goal of 450 additional properties in the City. VBCDC was only able acquire one project having 55 units (12% of its goal). See Table 6.

| Table 6 – Completed VBCDC Housing Development and Rehabilitation Projects FY 2016 – FY 2018 | | | |
|---|---|---|---|
| **Project Type** | **Number of Projects in Virginia Beach** | **Number of Units in Virginia Beach** | **Auditor Comments** |
| Apartment Complex Acquisition | 1 | 55 | Grand Cypress Apartments purchased under the present CEO in December 2016. |
| New Housing Development | 0 | 0 | Although not a VBCDC project, VBCDC did provide assistance to the development SAC's Cypress Landing Apartments in Chesapeake. Project planning and coordination began under the prior CEO in September 2013. |
| Scattered Site Acquisition | 0 | 0 | VBCDC has stopped acquisition and rehabilitation. |
| **Total** | **1** | **55** | **VBCDC was only able to complete one project with 55 units. That amounts to just 12% of the Strategic Plan goal of 450 properties.** |

VBCDC states the following in its Strategic Plan under "Challenges":

*"Community misperception and opposition remain a threat to our continued development of quality housing that is affordable. Lack of developable land and the high cost of the remaining developable land is a threat that remains constant. When land or a suitable project is identified, VBCDC lacks the development capital to compete with for-profit developers. We are unable to quickly assemble the funding needed to be competitive when bidding against other for-profit entities for the purchase of existing multi-family portfolios on the market."*

We have found that other for-profit/not-for profit organizations facing the same challenges have been able to accomplish what VBCDC has been unable to do. Examples:

- The partnership between The Lawson Companies and Samaritan House resulted in the redevelopment of an old apartment complex into a 76-unit affordable housing complex in the sought-after ViBe District of the City called Seaside Harbor, which opened on April 22, 2019.

- Richmond-based nonprofit Virginia Supportive Housing opened Crescent Square, an 80-unit affordable apartment complex located at Diamond Springs Road, Virginia Beach, in 2016.
- The Franklin Johnston Group recently bought an 11-acre property located on North Witchduck Road to build a 240-unit low-income apartment complex.

The elimination of the Vice-President of Development due to budgetary reasons in 2018 and the decreasing available balance of Line of Credit funds has put VBCDC in a precarious position for seeking out and executing future development projects.

**Recommendation:**

4. Improve VBCDC's financial standing and work collaboratively with the City and other agencies to increase competitiveness in acquiring housing development projects.

**Finding 5 - Inability to Maintain Current Housing Stock**

In 2018, 75% (36 of 48) of VBCDC properties inspected by the City housing Code Enforcement inspectors failed initial inspection due to code violations.

- Eight of 36 (22%) that were eventually re-inspected failed re-inspection
- The remaining 28 (85%) had not been rescheduled for re-inspection at the time of our review.

**Recommendation:**

5. Monitor the condition of the rental properties and promptly remedy housing code violations.

**Finding 6 - Questionable Management Decisions to Outsource Facilities Maintenance Team**

Despite its core business of providing housing, management dissolved VBCDC's in-house facilities team in 2015 and outsourced the maintenance and rehabilitation of its rental properties without performing a detailed cost benefit analysis to support this cost-driven decision. The absence of an analysis has precluded management from effectively identifying the true causes of maintenance cost increases, whether it was personnel, materials, or other factors.

The outsourcing arrangement lasted for only eight months, from September 2015 to May 2016, due to contractor losses in the maintenance of VBCDC properties. VBCDC had to undergo the process of hiring a new facilities team, which likely have resulted in losses in time, money, expertise, and maintenance opportunities.

The facilities team's current staffing of six maintenance technicians is smaller than its former size of nine. This may have driven VBCDC's high rate of property inspection failures.

**Recommendation:**

6. Increase focus and investments in VBCDC's core business of providing quality housing by adequately staffing the Asset Management Department.

**Finding 7 – Discontinuation of Programs led to Lost Revenues**

**Homeowner Rehabilitation Program** - The critical decision to discontinue the Homeowner Rehabilitation Program as of December 31, 2016 was not supported by data. Management was unable to provide us with any cost-benefit analysis behind this cost-driven decision. The absence of an analysis has precluded management from effectively identifying the problem areas and take necessary actions to potentially salvage this major yearly program. Based on its final year (FY 2017), the lost revenue was $148,273.

VBCDC's inability to properly manage the program led to its abrupt discontinuation, as VBCDC was no longer able to pay the program's salaries. Rather than give a minimum of 30 days' notice, VBCDC gave only one week for DHNP to take control of the program. This has caused disruptions to DHNP's workload. DHNP had to quickly borrow from other programs and hire additional staff that then needed to familiarize themselves with the program, obtain additional paperwork from clients, and vet clients that were on the waiting list.

**Transitional Housing Program** – Data was not used to support the critical decision to discontinue the Transitional Housing Program on June 30, 2017. Management was unable to provide us with any cost-benefit analysis behind this cost-driven decision. The absence of an analysis has precluded management from effectively identifying the problem areas and take necessary actions to potentially salvage this major yearly program. Based on its final year (FY 2017), the lost revenue was $392,393.

**Recommendation:**

7. Perform a cost-benefit analysis to support cost-driven decisions and initiatives to ensure that all factors are considered prior to making decisions.

## III. Attract and Retain the Best and Brightest Talent for its Staff and Board

VBCDC will attract and retain the best and brightest talent for its staff and board.

### A. STAFF

**Finding 8 - Pattern of CEO Absences**

The CEO was frequently away from the office. Some of the reasons stated for her absences were attendance at conferences, out-of-state meetings, working from home, and taking compensatory (comp) time for various tasks. During our meetings with staff as well as from our confidential survey, many employees noticed the CEO's frequent absences and repeatedly commented on it. Examples that we found in our review are as follows:

- February 18, 2019 to February 21, 2019 – The CEO was unable to satisfactorily account for her absence from the office for four business days. She emailed her staff that she was attending a conference on attainable housing, but there was no confirmation of her attendance at said conference. There was no registration fees or other travel-related costs such as airfare, hotel, or meals provided. Thus, we were unable to verify whether her absence was for personal or business reasons since there was no documentation supporting her explanation for attending the conference.

- January 13, 2019 – The CEO emailed staff that she was working from home for the entire week to write some official documents, as she would not be able to focus on writing while at the office.

- In September 2017 and October 2017 alone, the CEO had five out-of-state travels for conferences and meetings. The CEO claims that "98%" of her travels are 'sales type' for potential SAC development opportunities. However, there have been no leads to date that have materialized from any of those travels and documentation to support the business nature of the travels.

- The CEO frequently explained to staff that she was not coming to the office because she was taking comp time that she earned. However, VBCDC does not have an employee policy for comp time. Below are examples:

    - In January 2019, the CEO sent five separate emails informing staff she was taking comp time and would not be coming to the office.

    - In October 2018, the CEO sent four separate emails that she was taking comp time, two of which were for the entire day.

During confidential interviews and input from an employee survey, several employees commented on the CEO's pervasive absence:

Direct Quotes from the Survey about the CEO's Absences:

> *"I have nothing against" the CEO "but have only seen her a hand full of times, mostly at group events, rarely at the office on a daily basis"*
>
> "*We need that leader to be present in the office and to set a good example from the top."*
>
> *"I think VBCDC could be a great place to work with the right leadership, who is present and available to help grow the organization."*
>
> *"CEO needs to invest more time in VBCDC verses SAC."*

**Note:** During our audit, the CEO resigned. Below is the timeline and reason she provided for her resignation:

> **April 25, 2019** – The CEO emailed the Board that she was resigning effective May 31, 2019. The CEO stated, *"My resignation is due to the stress that I have endured, in a hostile work environment, for the last 4.5 years."*
>
> **April 25, 2019** – The CEO clarified her earlier email stating, *"Hi All, I want to clarify my earlier message. The "hostile work" environment reference below relates to specific City Council members. Make no mistake, our board, our staff, and our neighbors have done nothing but support and appreciate our work."*
>
> **April 30, 2019** – VBCDC Board holds a special Board meeting and votes to place the CEO on administrative leave effective May 2, 2019 through her resignation date of May 31, 2019. The Board also named the COO as the Interim CEO.

**Recommendations:**

8.1 Develop and improve policies governing work privileges, such as working from home, and comp time. Monitor such privileges for appropriateness, productivity, fairness, potential abuses, and compliance with laws and regulations.

8.2 Monitor work progress of every department through regular reporting and meetings to ensure that work is progressing, employees are properly supervised, and costs are controlled.

**Finding 9 – Procurement Process not Followed in Hiring of Consultants**

Management did not follow established procurement policies in the hiring of five Chicago-based consultants. Competitive bids were not sought out or received prior to the hiring. The total amount paid for these consultants was $131K between 2015 to 2019. See Table 7.

| Table 7: Consultants from Chicago | |
|---|---|
| **Service Provided:** | **Amount Paid:** |
| Information Technology | $ 64,842 |
| Procurement to update policy | $ 32,186 |
| Graphic designer for events | $ 18,952 |
| Human Resources | $ 8,433 |
| Various consulting work | $ 6,896 |
| **Total** | **$ 131,309** |

*Note 1: The CEO was the former Executive Vice-President of the Chicago Housing Authority*
*Note 2: Figures do not include travel-related expenses of the consultants*

**Recommendation:**

9. Adhere to the Procurement Policy to ensure that consultants and contractors are engaged in the most cost efficient manner. Policy should address thresholds that require Board approval.

**Finding 10 - Use of the Remote Employee may not be Beneficial**

The Executive Assistant to the CEO/Board Liaison is a remote employee who works from Atlanta, Georgia. It may not be beneficial for VBCDC to continue having a remote employee. Management should reassess the net benefits based on the type of work the position entails. Consider factors such as whether other employees are doing work on behalf of the remote employee, whether close physical interaction is needed to fully accomplish work, and/or whether the remote employee require occasional travel to the office.

VBCDC also had employed a full-time HR Director that worked remotely from Chicago, from August 2015 to August 2018. It was for a newly created position that other members of management believed was not necessary because of VBCDC's small staff size. In the three years of employment, VBCDC incurred $235K for the HR Director's compensation and thousands of dollars more on travel costs to Virginia Beach (approximately at least once per quarter).

**Recommendation:**

10. Evaluate the benefits of having a remote employee in relation to workload and costs.

## B. BOARD

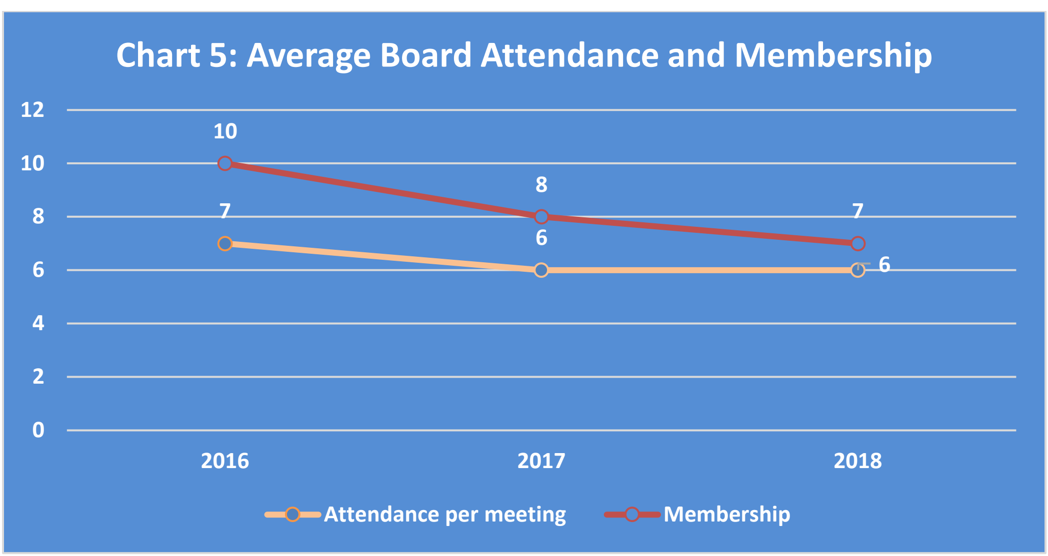
**Finding 11 - Low Board Makeup/Attendance has Adversely Impacted Necessary Oversight**
Board membership and attendance need improvement for proper execution of governance duties. Recently, City Council has appointed several new Board members to fill vacant spots. Current Board membership is now at eight.[7] However, prior to these recent appointments Board makeup and attendance were lacking. We reviewed data from January 27, 2016 to November 28, 2018 Board meeting minutes and noted the following:

- Membership has steadily declined since 2016, from ten to seven members (see Chart 5). The Board's full membership consists of 11 directors, and a quorum is comprised of six directors.

- Number of attendees per meeting slightly decreased from seven to six. See Chart 5

- Attendance in six of 30 Board meetings were less than quorum, one occasion attendance was as low as four.

- The attendance rate of City Council liaisons is also very low. Of the 30 Board meetings, one liaison was present in four meetings and both were present in one meeting, for a total attendance rate of 17%.




*Source: Board meeting minutes held between January 27, 2016 and November 28, 2018*

[7] Recent events have dropped the membership to eight from ten in January 2019: 1) City Council appointed a Board member to a seat in the City Council on May 7, 2019 and 2) one Board member resigned on May 23, 2019.

- VBCDC management expressed concerns relating to the Board in its October 25, 2017 letter requesting City Council to grant the following:

    1. *VBCDC Board will be authorized to formally create a pool of interested and qualified candidates. The City Council will select Board members from this pool.*
    2. *VBCDC Board will be formally authorized to do community development work outside of the jurisdiction of the City of Virginia Beach.*
    3. *VBCDC Board members will have the option of being virtually "present" at up to two committee meetings, and up to two full Board meetings via conferencing technology, in a single calendar year.*

Per management, City Council has never responded to the letter. The CEO, in several meetings, expressed her frustration to the auditors including a lack of direction provided by City Council, a lack of interest in truly supporting affordable housing initiatives by City Council members/appointed Board members, and a lack of a collaborative approach in City Council/City staff working with VBCDC.

**Recommendations:**

11.1 City Council should provide clear direction to its appointees to the VBCDC Board, both directly and through the City Council liaisons and City staff liaisons, on an ongoing basis. As an organization created by City Council and with a Board appointed by City Council, VBCDC exists to help the City achieve its goals for housing and neighborhoods. These goals and the potential actions to achieve them are currently expressed in the City's Comprehensive Plan. In addition, City staff are charged with the development of a "Housing and Neighborhood Strategy", which will provide the long-term goals and strategies that the City seeks to achieve, once adopted by City Council.

11.2 VBCDC should be actively involved in the development of the Housing and Neighborhood Strategy, especially since its CEO is on the City's Housing Advisory Board, which is charged with recommending plans and strategies to City Council. VBCDC should ensure that it works closely with the Housing Advisory Board and the DHNP staff liaisons in the development of plans and projects, so that they can be reviewed through the City Manager's Office and presented to City Council for consideration in the normal course of business.

## IV. VBCDC and SAC's Business Relationship Needs Profound Definition

SAC became a separate organization in July 1, 2016, but it remains heavily dependent on VBCDC to provide resources for its operations. The business structure and relationship between VBCDC and SAC needs to be reviewed and revised to ensure that no conflict of interest exists and that VBCDC is not disadvantaged. Concerns about their relationship are as follows:

**Finding 12 - Shared Services Agreement not Followed to the Detriment of VBCDC**
While there is a Shared Services Agreement stipulating VBCDC's provision of services and facilities to SAC for stated fees, actual circumstances do not truly reflect this agreement. Major areas of noncompliance are (also see Table 8):

- Conflict of interest: The CEO, COO, Chief Financial Officer (CFO) of VBCDC hold the same positions in SAC. They are the same people that make decisions for both organizations.
- VBCDC no longer charges fees or interest. This started for FY 2018 because management determined that SAC no longer has the ability to pay for them due to lack of revenue prospects. SAC currently owes VBCDC $424K.

**Table 8 – July 1, 2016 Shared Services Agreement Analysis**

| Shared Service Agreement Criteria | Finding |
|---|---|
| **Section 4 states *"VBCDC shall not be vested with any management decision-making powers on behalf of SAC and VBCDC's responsibilities hereunder are limited to providing the services in a manner designed to improve the efficiency of SAC's business activities."*** | The CEO, COO, and CFO of VBCDC hold the same positions in SAC. They are same people that make decisions for both organizations. |
| **Section 5 states *"SAC agrees to pay VBCDC a Services Fee of 125% of the stated hourly rate of each VBCDC employee providing services to SAC. In addition, SAC agrees to pay an additional 10% of the monthly Services Fee as compensation for the use of VBCDC's office facilities and computer networks."*** | VBCDC no longer charges any fee and interest starting July 1, 2018 because management determined that SAC does not have the ability to pay for them due to lack of revenue prospects. SAC does not have any project in line that would provide developer fee revenues, its primary funding source to finance its operations. The developer fees from Cypress Landing Apartments is repayment for SAC's loan and not revenues to VBCDC. |

| | |
|---|---|
| **Section 6 states *"SAC will pay interest of any past due amounts owed to VBCDC as set forth in Section 5."*** | In effect, VBCDC is subsidizing SAC's operations, despite having financial troubles of its own.<br>• SAC still owes VBCDC \$424K (entered in "Due From" account). SAC expects to pay this loan from its developer fee revenues; however, this may not be sufficient to pay the loan in full.<br>• Starting July 1, 2018, VBCDC no longer charges SAC any interest, which deprives VBCDC of interest earnings on the outstanding "Due From" account balance.<br>• Although SAC's activities and expenses were significantly reduced after July 1, 2018, VBCDC continues to provide services and allows the use of its facilities. Management has not tracked the value of those two after July 1, 2018. |
| **Section 20 states "*VBCDC shall provide the Services to SAC as an Independent contractor. Nothing contained herein shall be considered to create the relationship of employer and employee, partnership, joint venture or other association between parties."*** | VBCDC is not providing services to SAC in the form of an independent contractor. Based on the above observations, VBCDC is playing the role of a related party. This is evident as VBCDC's CEO, COO, and CFO hold the same positions in SAC. |

***Note:*** *SAC does pay its pro-rata share of fees for Asset Management (leasing services and facilities maintenance).*

**Finding 13 – Conflict of Interest Between VBCDC/SAC Executive Management Team**
There is an obvious conflict of interest in the management of both organizations. While they are both separate entities, VBCDC's management (i.e. CEO, COO, and CFO) holds the same positions within SAC. The risk exists that management could make decisions that greatly impacts one organization at the expense of the other. For example, the SAC Board granted VBCDC's CEO an additional 40 hours of annual leave on August 24, 2016. The VBCDC Board was not notified about this nor have been made aware of this decision. VBCDC is the employer of record and, as such, is the only authority that can grant any form of employee benefits.

In addition, management receives a stipend from SAC that amounts to approximately 5% of their VBCDC salaries. However, since VBCDC already compensates them fully, any compensation received for their services to SAC that is within the 40-hour workweek should belong to VBCDC. See Table 9.

| TABLE 9: Management's Hours and Stipends Three-Year Average | | | | |
|---|---|---|---|---|
| **Managers** | **FYs 2016 – 2018 *(In hours)*** | | | **% Not Devoted to VBCDC** |
| | **VBCDC** | **SAC** | **SAC Stipend** | |
| Chief Executive Officer | 20 | 20 | $ 6,684 | 50% |
| Chief Operating Officer | 30 | 10 | $ 4,980 | 25% |
| VP, Development | 10 | 30 | $ 5,053 | 75% |
| Chief Financial Officer | 30 | 10 | $ 4,636 | 25% |

*Source: IRS Form 990 for tax years 2016 to 2018*

**Finding 14 – No Requirement for SAC to Share Development Fees With VBCDC**
VBCDC has been supporting SAC because it believes that SAC is a housing development arm from which VBCDC could earn developer and management fee revenues. Developer fees provide large amounts of revenue while management fees are modest in comparison. Both organizations have a contractual agreement for VBCDC to manage SAC's Cypress Landing Apartments. However, there is no contractual agreement on sharing the developer fees of any SAC project to VBCDC. Without getting developer fees, the benefits for VBCDC from its relationship with SAC may not be worthwhile.

**Finding 15 – SAC has not Qualified for any CHDO Funding in Over Three Years**
Since 2016, SAC has received $0 because it had zero projects completed, despite large investments of time and money in the process.

A CHDO is a private nonprofit, community-based organization that has staff with the capacity to develop affordable housing for the community it serves. HUD requires that at least 15% of HOME funds must be set aside for qualified housing development activities.

SAC at one time was the only CHDO in the metropolitan area. However, in recent years, two other CHDOs were established – Habitat for Humanity and Community Alternatives. Since SAC did not have qualified CHDO projects since 2016, funding went to these two organizations. For FY 2019, the CHDO funding was $180K.

**<u>Recommendation:</u>**

12. VBCDC, in collaboration with DHNP, should re-evaluate the advantages/disadvantages of the current relationship, structure, and shared Services Agreement with SAC and take necessary

actions to ensure the short/long term viability of VBCDC. This includes the necessity of paying stipends to management listed in Table 9. Planned action should be approved by both the VBCDC and SAC Boards.

In this evaluation of the relationship, it is important to recognize the complexity involved because of many factors such as:

- SAC has a key role in the development of Cypress Landing, the veteran's housing project in Chesapeake. This involves various commitments to financial lenders, which impose obligations on the organization for 15 years from opening. It includes the agreement with VBCDC to manage the project as referenced above. It may be difficult to adjust what SAC is and its relationship to VBCDC without affecting those commitments and obligations.

- SAC's current status as a CHDO. The HUD regulations regarding CHDOs may make it difficult to re-start a relationship with VBCDC. Careful review of the HUD regulations will be required to determine if/how that can be done.

## Conclusion

Based upon our audit, we determined that: VBCDC is currently facing severe financial challenges; VBCDC has not been able to meet its goals of serving more individuals; and VBCDC is having challenges retaining both staff and Board members. Without remediating the findings noted in this report, VBCDC's sustainability and viability could adversely be impacted.

## Acknowledgements

We would like to thank the staff and Board of VBCDC for their cooperation during our audit work. They were open to our suggestions, accommodating, prompt with our information requests, and willing to address all of our inquiries. We would also like to thank the staff of the City Department of Housing and Neighborhood Preservation who also provided valuable assistance during the audit.

Virginia Beach
COMMUNITY DEVELOPMENT CORPORATION

*Building, Supporting & Preserving Communities since 1985.*

**Virginia Beach Community Development Corporation**

Jessica Guglielmo
Interim President and CEO

Kim Johnson
Vice President and CFO

2400 Potters Road
Virginia Beach, VA 23454

Ph: (757) 463-9516
Fax: (757) 463-1382

www.vbcdc.org

June 13, 2019

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, VA 23456
Attention: Lyndon Remias, City Auditor

RE: Response to the Audit of the Virginia Beach Community Development Corporation

Dear Mr. Remias,

This letter is written in response to the Office of the City Auditor's formal audit of Virginia Beach Community Development Corporation. VBCDC and its Board is proud to serve our Citizens of Virginia Beach and is consistently looking for ways to improve our programs and services to better serve our neighbors. The assessed value of our properties exceeds $48,000,000 making VBCDC one of the largest nonprofit providers of attainable housing in the City. Our properties provide attainable housing in the City to over 450 households at any given time. We look forward to continuing to serve the community in partnership with the City.

VBCDC Board is grateful for the audit as it shines light on areas in need of the Board's attention and improvement. VBCDC appreciates the professionalism and cooperation from the City Auditor and his staff during the audit. Please find attached a response and action plan to address the findings and incorporate the recommendations of the Audit Report dated May 22, 2019.

Very truly yours,

Wanda

Wanda Cooper
Chairman, VBCDC Board of Directors

Enclosure: VBCDC Response to the Audit of the City Auditor's Office

Cc: VBCDC Board of Directors
Jessica Guglielmo, VBCDC Interim President and CEO
Kim Johnson, VBCDC Vice President and CFO

VBCDC Response to the City Auditor's Office
June 5, 2019

**Finding 1: Financial Losses Mounting**

**Recommendation:**
Take immediate actions to stop the operating loss trend. Management needs to develop an integrated, long-term plan that addresses immediate and deep cost reductions of nonessential elements and significantly increase revenues to improve VBCDC's financial standing.

**Agency Response:**
VBCDC has taken immediate action to stop and ultimately reverse the operating loss trend.

- VBCDC's Board of Directors passed a budget with an operating surplus of $118,000 for Fiscal Year 19/20. This budget represents a net turnaround of approximately $300,000 based on current projections for Fiscal Year 18/19.
- Effective July 1, 2018, VBCDC no longer advances funds to SAC for development. Any expenses incurred by SAC are paid directly by SAC.
- VBCDC has eliminated "non-essential" positions and redirected personnel to support core business functions. For Fiscal Year 19/20 the Funds Development/Marketing Manager and remote Board Relations/Executive Assistant to the CEO positions were eliminated. Additionally, the Cedar Grove Front Desk Ambassador positions have also been eliminated.
- VBCDC has taken immediate steps to eliminate all "non-essential" spending such as unnecessary travel, events and unfunded programs.
- VBCDC is prioritizing Asset Management as the core business function and will ensure adequately staffing to maintain the properties and maximize rent through higher occupancy and quicker turn rates.
- VBCDC is pursuing grant opportunities that align with the mission and have a positive financial impact on the organization.

**Finding 2: No Concrete Plans in Place to Address Financial Losses**

**Recommendation:**
Develop concrete plans to stop and reverse the operating loss trend by evaluating and analyzing operations where VBCDC can reduce costs and increase revenues, to include:

- Staffing requirements
- Turnaround rate of rental properties
- Travel and administrative expenses

**Agency Response:**

- VBCDC receives revenue from rental properties, grants, and successful acquisition of revenue producing properties and we are seeking to increase revenue in all three areas.
- VBCDC continues to pursue opportunities to acquire and/or develop attainable housing in Virginia Beach; in December 2016 VBCDC acquired 55 units at Grand Cypress Apartments; in early 2018 VBCDC along with an equity partner submitted a letter of intent to purchase a 600 unit Multi-family Development at Baker Crossing, however we were outbid; in February 2019

VBCDC began evaluating the feasibility of purchasing a small, multi-family apartment complex in Virginia Beach - discussions with the owner are ongoing.

- In 2019, VBCDC submitted multiple grant proposals to support operations for the upcoming fiscal year and we are awaiting award notifications.
- VBCDC's Board of Directors passed a budget with an operating surplus of $118,000 for Fiscal Year 19/20. This budget represents a net turnaround of approximately $300,000 based on current projections for Fiscal Year 18/19.
- VBCDC is prioritizing Asset Management as the core business function and will ensure adequate staffing to maintain the properties and maximize rent through higher occupancy and quicker turn rates.
- VBCDC has eliminated "non-essential" positions and redirected personnel to support core business functions. For Fiscal Year 19/20 the Funds Development/Marketing Manager and remote Board Relations/Executive Assistant to the CEO positions were eliminated. Additionally, the Cedar Grove Front Desk Ambassador positions have also been eliminated.
- VBCDC has eliminated all "non-essential" spending such as travel, events and unfunded programs.
- VBCDC's management is revisiting the current travel and expense policy and will be making adjustments where necessary; training will be provided to staff to ensure policies are adhered to with zero tolerance for abuse, including use of credit cards.
- Effective July 1, 2018, VBCDC is no longer advancing funds to SAC for development. Any expenses incurred by SAC are paid directly by SAC. As of May 15, 2019 the balance SAC owes VBCDC is $424,000 down from $529,000 as of June 30, 2018.
- VBCDC is a guarantor on the construction loan for Cypress Landing, however it should be noted that the funding to repay the loan has already been secured and will be made available upon completion of the project.

**Finding 3: Internal Controls Over Storeroom Supplies Need to be Enhanced**

**Recommendations:**

**3.1** Strengthen internal controls over issuance, storage and access over property maintenance supplies and equipment.

**Agency Response:**

- VBCDC has a policy for supply inventory. The Director of Asset Management who reports directly to the CEO is responsible for oversight of the maintenance supplies and is responsible for overseeing the policy. The policy includes regular inventory counts to verify controls over issuance and storage of supplies.
- Management will provide training to appropriate staff to ensure the policy is enforced.

**3.2** Update Code of Conduct

**Agency Response:**

- The Board of Directors will review the current policy, update accordingly to include the recommendations and ensure the policy is enforced.

- Management will provide training to all staff regarding the updates to the policy.

**3.3** Update the Property Replacement Reserve Policy
**Agency Response:**

- VBCDC's replacement reserve policy was created in collaboration with the City's Finance Director. This policy approved on April 28, 2004 states that VBCDC should have a total reserve fund of 25–30% of its annual operating budget or 110-125% of its annual debt service whichever is lower. The replacement reserves consist of both Restricted Reserves which are designated by VHDA, HUD and other lenders and Board Designated Reserves which can be used for capital expenses at the discretion of the Board.
- VBCDC has maintained compliance with this policy.
- VBCDC will revisit the existing Replacement Reserve policy in consultation with the City's Finance Director and update it accordingly.

**Finding 4: Unable to Develop or Acquire Properties**

**Recommendation:**
Improve VBCDC's financial standing and work collaboratively with the City and other agencies to increase competitiveness in acquiring housing development projects.

**Agency Response:**

- VBCDC agrees with the recommendation and has taken steps to work with the City's Department of Housing and Neighborhood Preservation; as a result of recent collaborative efforts, VBCDC is exploring the potential acquisition of a small multi-family property in Virginia Beach.
- VBCDC continues to pursue opportunities to acquire and/or develop attainable housing in Virginia Beach; in December 2016 VBCDC acquired 55 units at Grand Cypress Apartments; in early 2018 VBCDC along with an equity partner submitted a letter of intent to purchase a 600 unit Multi-family Development at Baker Crossing, however we were outbid; in February 2019 VBCDC began evaluating the feasibility of purchasing a small, multi-family apartment complex in Virginia Beach - discussions with the owner are ongoing.

**Finding 5: Inability to Maintain Current Housing Stock**

**Recommendation:**
Monitor the condition of the rental properties and promptly remedy housing code violations.

**Agency Response:**

- VBCDC has and is actively cooperating with the Code Enforcement Division of the DHNP to identify and correct any current violations. The majority of housing violations identified in the Auditor's Report were maintenance violations that do not endanger the health and safety of residents.

- As resources become available, VBCDC will invest more in our capability to allow for more responsive and proactive property maintenance. This includes investing resources in growing the staff to address issues, whereby reducing code violations, allowing for quicker turns, and minimizing vacancy time.

**Finding 6: Questionable Management Decisions to Outsource Facilities Maintenance Team**

**Recommendation:**
Increase focus and investments in VBCDC's core business of providing quality housing by adequately staffing the Asset Management Department.

**Agency Response:**

- VBCDC re-established its in-house Property Management and Maintenance Staff in 2016 after outsourcing the portfolio the prior year.
- VBCDC's focus is on rebuilding the Asset Management Team and will maintain property management and maintenance functions in-house.

**Finding 7: Discontinuation of Programs led to Lost Revenues**

**Recommendation**
Perform a cost-benefit analysis to support cost-driven decisions and initiatives to ensure that all factors are considered prior to making decisions.

**Agency Response**:

- VBCDC currently provides critical financial and supportive services to vulnerable veteran households and plans to continue the programs while grant funds support the costs.
- VBCDC agrees with the recommendation and will perform cost-benefit analyses to support decisions prior to implementation and/or action.

**Finding 8: Pattern of CEO Absences**

**Recommendation:**
**8.1** Develop and improve policies governing work privileges, such as working from home and comp time. Monitor such privileges for appropriateness, productivity, fairness, potential abuses and compliance with laws regulations.

**Agency Response:**

- VBCDC agrees with this recommendation and notes this pattern was isolated to the former CEO.
- VBCDC Board of Directors will monitor its Executive Team's (CEO, COO, and CFO) performance and compliance with policies on a quarterly basis through its personnel committee.
- VBCDC staff follow guidelines outlined in the employee handbook and the telework policy.
- Management will review the current personnel policies, update where needed, and provide training to all staff resulting from changes.

**8.2** Monitor work progress of every department through regular reporting and meetings to ensure that work is progressing, employees are properly supervised, and costs are controlled

**Agency Response:**

- VBCDC agrees with the recommendation. Steps have already been taken toward this recommendation. Beginning with the June 2019 Board Meeting, Executive and Director level staff will provide written reports to the board on operations and programs.

**Finding 9: Procurement Process not Followed in Hiring Consultants**

**Recommendation:**
Adhere to the Procurement Policy to ensure that consultants and contractors are engaged in the most cost-efficient manner. Policy should address thresholds that require Board approval.

**Agency Response:**

- VBCDC agrees with the recommendation and acknowledges this was isolated to the former CEO; the procurement policy is otherwise adhered to.
- VBCDC will review the procurement policy and other Board approved policies governing spending thresholds and will make changes as needed. Staff will receive training on policy revisions.

**Finding 10: Use of the Remote Employee may not be Beneficial**

**Recommendation:**
Evaluate the benefits of having a remote employee in relation to workload and costs.

**Agency Response:**

- VBCDC agrees with the recommendation. VBCDC will continue to evaluate the benefits of having a remote employee in relation to the workload and costs. The FY 19-20 budget eliminates the remote employee.

**Finding 11: Low Board Makeup/Attendance has Adversely Impacted Necessary Oversight**

**Recommendation:**
**11.1** City Council should provide clear direction to its appointees to the VBCDC Board, both directly and through the City Council liaisons and City staff liaisons, on an ongoing basis.

**Agency Response:**

- VBCDC agrees with the recommendation and is committed to our mission and partnering with the City to achieve its goals related to attainable housing.

**11.2** VBCDC should be actively involved in the development of the Housing & Neighborhood Strategy, especially since its CEO is on the City's Housing Advisory Board, which is charged with recommending plans and strategies to City Council. VBCDC should ensure that it works closely with the Housing Advisory Board and the DHNP staff liaisons in the development of plans and projects, so that they can be reviewed through the City Manager's Office and presented to City Council for consideration in the normal course of business.

**Agency Response:**

- VBCDC agrees with the recommendation and is committed to our mission and partnering with the City to achieve its goals regarding housing. VBCDC's is committed to working closely with the City's Housing Advisory Board and the DHNP staff liaisons for future housing development related projects.

**Finding 12: Shared Services Agreement not Followed to the Detriment of VBCDC**
**No Auditor Recommendation – See Agency Response Under #15**

**Finding 13: Conflict of Interest Between VBCDC/SAC Executive Management Team**
**No Auditor Recommendation – See Agency Response Under #15**

**Agency Response:**
VBCDC is in agreement that VBCDC Executives may not serve as SAC Executives with the existing relationship and structure. VBCDC will work in collaboration with DHNP and SAC to review the relationship and structure and to eliminate the conflict.

**Finding 14: No Requirement for SAC to Share Developer Fees With VBCDC**
**No Auditor Recommendation – See Agency Response Under #15**

**Finding 15: SAC has not Qualified for any CHDO Funding in Over Three Years**

**Recommendation:**

VBCDC, in collaboration with DHNP, should re-evaluate the advantages/disadvantages of the current relationship, structure, and shared Services Agreement with SAC and take necessary action to ensure the short/long term viability of VBCDC. This includes the necessity of paying stipends to management...Planned action should be approved by both the VBCDC and SAC Boards.

**Agency Response:**

VBCDC agrees with the recommendation. In collaboration with the DHNP, VBCDC Management will review the relationship and structure between VBCDC & SAC and make recommendations to the Boards of Directors regarding the future of SAC.