



Audit of the Virginia Beach Community Development Corporation



Office of the City Auditor
Presented by Lyndon Remias and Tony Gonzalez
June 18, 2019



BOARD MEMBERS

	Members	Term	Beginning Date	Expiration Date	Notes
1	Rodgers, Terron	4	10/8/2014	12/31/2019	Secretary
2	Cooper, Wanda	4	9/1/2015	12/31/2019	Chair
3	LaLonde, Courtney	4	1/1/2016	12/31/2019	Vice Chair
4	White, Richard	3	1/1/2017	12/31/2020	Resignation effective May 23, 2019
5	Brown, Christopher L	4	9/4/2018	8/31/2022	
6	Ewell, Robert	4	9/4/2018	8/31/2022	
7	Nahra, Myron	4	9/4/2018	8/31/2022	
8	Wray, Eric	Unexpired +4	12/4/2018	12/31/2024	
9	Johnson, Jeremy	Unexpired	1/8/2019	12/31/2020	
10	Berlucchi, Michael	Unexpired +4	1/15/2019	12/31/2024	Replace- Appointed by City Council
11	Hindle, Tammy	4	9/16/2015	12/31/2019	Resignation effective January 1, 2019



Executive Team

- Addie Wright Thomason, Chief Executive Officer
- Resigned during audit
- Jessica Guglielmo, Chief Operating Officer
- Named interim CEO by Board
- Kim Johnson, Chief Financial Officer

Council Liaisons

- John Moss
- Michael Berlucchi (replaced Shannon Kane)

City Staff

- Ronald Williams, Deputy City Manager
- Andrew Friedman, Director, Department of Housing and Neighborhood Preservation

TIMELINE OF AUDIT

Date	Events
December 7, 2018	Official audit notification emailed to City Council and Management (management to notify VBCDC)
December 20, 2018	Email From CEO, Addie Thomason, received: <i>“Hi Karen and Andy - We are in process of determining whether the City has standing to perform an audit of VBCDC, based on our corporate documents and our one contract with Human Services. This process will include consultation with our board officers and corporate attorney. We are not prepared to engage in a pre-audit meeting during the first week of January. However, I will follow-up with you in January, with our findings.”</i>
January 13, 2019	Received Letter From City Attorney, Mark Stiles advising per city code we did have authority to audit.
January 14, 2019	Email from CEO, Addie Thomason Received: <i>“Hi Lyndon, We have not able to identify the City’s legal authority for conducting this audit. If you have identified this authority, please send it to me.”</i>
January 15, 2019	Spoke With Ms. Thomason to discuss authority to conduct audit.
January 28, 2019	Audit Entrance Conference with VBCDC management to commence audit.
February 27, 2019	Presentation to VBCDC Board regarding objectives of audit (both City Council representatives and Andrew Friedman, Director of Housing and Neighborhood Preservation were in attendance).
April 22, 2019	Met with Ms. Thomason and Executive Management team to provide an update of the audit, preliminary findings, and timelines for conclusion.
April 24, 2019	Ms. Thomason emails resignation to board and community stakeholders citing a hostile work environment. Sends a follow-up email citing hostile work environment relates to specific Council members.
May 20, 2019	Exit Conference with management held.
May 22, 2019	Presentation of audit results to VBCDC Board (Public meeting). Report will be sent to Board and Council prior to mtg.
June 18, 2019	Presentation of audit results to City Council.



VBCDC

VBCDC is a 501(c)(3) nonprofit housing development corporation operating in the City of Virginia Beach (City).

- In September 1985, 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 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.
- 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.



VBCDC

- The 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 \$26,874,665, net of accumulated depreciation.
- Long-term debt from mortgages is \$19,742,093.
- \$5.2M of the debt relates to the purchase of Grand Cypress Apartments in 2016.
- Has a staff of 31 full-time employees (FTEs).
- Annual budget for FY 2019, \$5,450,607.



SECOND ACT COMMUNITIES



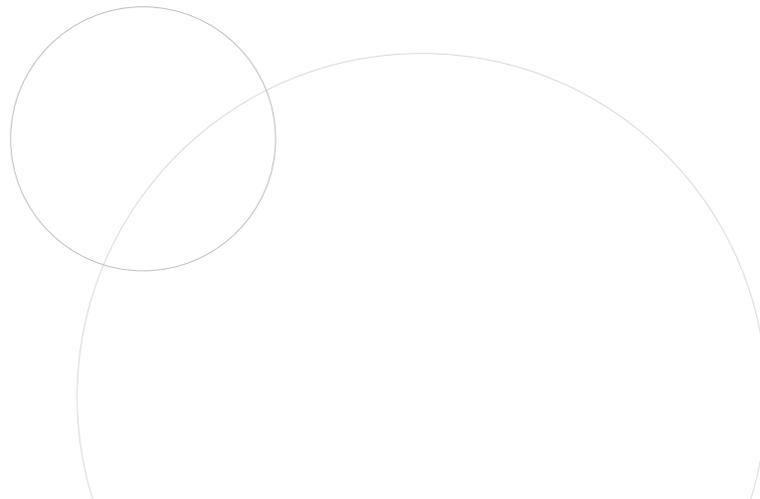
- In 1992, VBCDC created an affiliate nonprofit organization known today as Second Act Communities. SAC was created to receive a special allocation of funding under the Federal HOME program for organizations meeting the Community Housing Development Organization (CHDO) requirements.
- Since 2016, SAC 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.



SECOND ACT COMMUNITIES



- July 2016, SAC officially separated from VBCDC at the initiative of the CEO in order to fully comply with CHDO entity requirements and to explore development opportunities outside of Virginia Beach.
- SAC is governed by its own Board and managed by VBCDC executives who hold the same position in SAC.





STRATEGIC GOALS



Management has not been effective in accomplishing the critical goals of the Virginia Beach Community Development Corporation (VBCDC) Strategic Plan.

1. Remain Financially Sustainable
2. Service more Neighbors in New Ways
3. Attract and Retain the Best and Brightest Talent



REMAIN FINANCIALLY STABLE

Finding 1: Financial Losses Mounting

Business practices over the last three fiscal years have resulted in a significant and increasing operational loss trend. To finance normal operations, funds generally reserved for housing development opportunities were used.

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



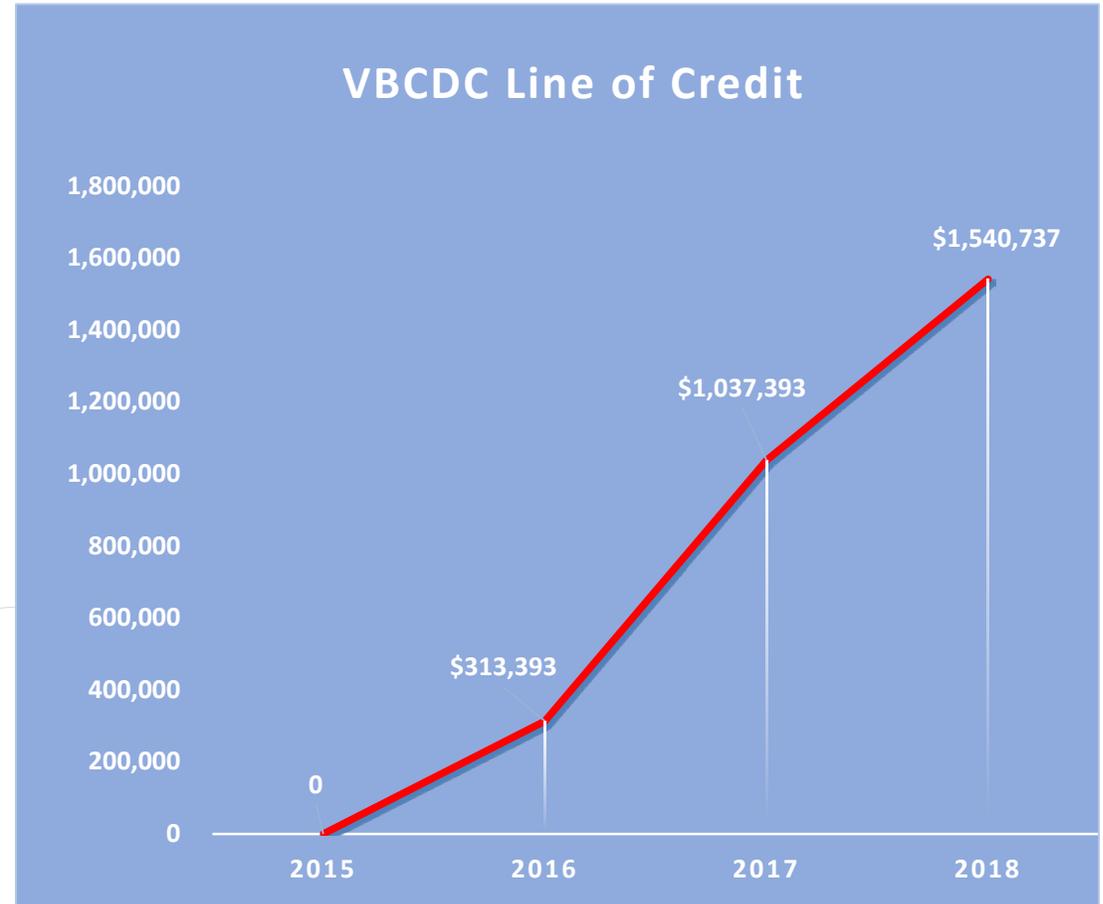
Financial Statements show a three year operational loss average of \$1.5M. Cumulative losses have reduced VBCDC's net position by \$3.3 M.

Warning from CPA Firm to Board: With the need to update property and this being the second year of a decrease in net position, be aware of cash flow and financial position to keep the organization operational.

REMAIN FINANCIALLY STABLE

To finance normal operations, funds generally reserved for housing development opportunities were used.

A line of credit was used to fund operations and has continued to increase.





OTHER FINANCIAL CONCERNS

- To 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)
- In 2016, VBCDC provided a grant of \$528,784 to SAC to help fund SAC's operations.
- 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).



OTHER FINANCIAL CONCERNS

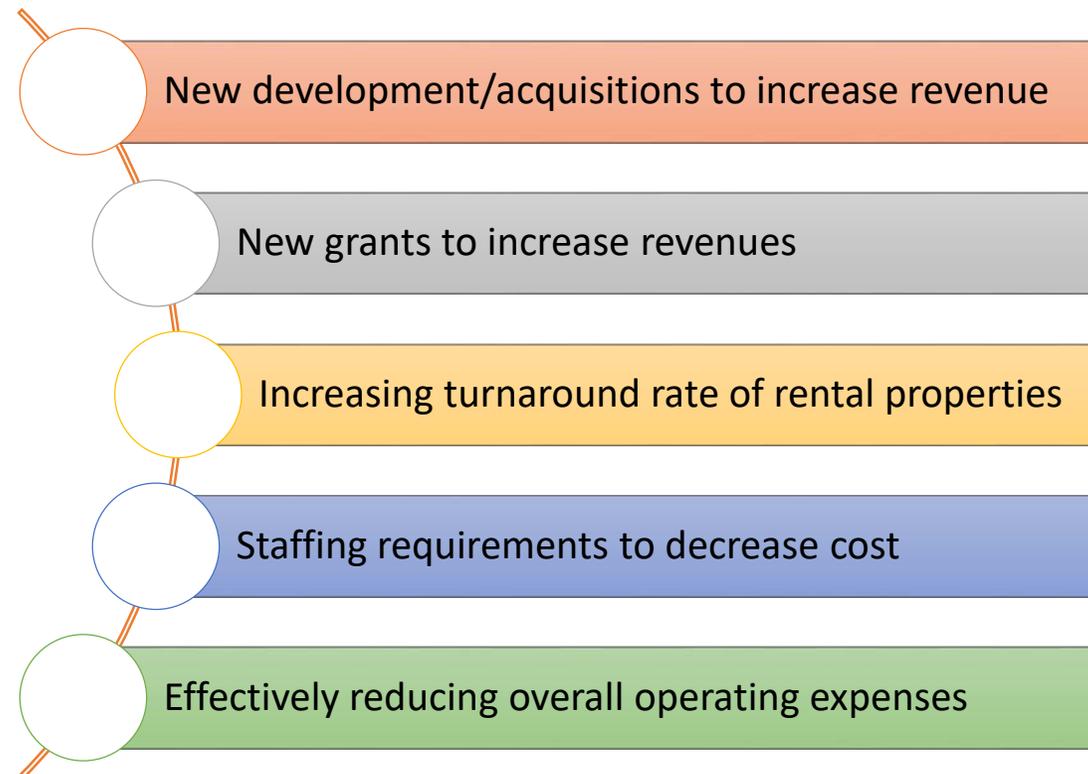
- Results from two fundraising events were significantly below expectations. Total revenues from both events was estimated at \$250K, but the actual result was a \$46K loss; a \$296K difference
- Planning for The Spot took two years, but it was only operational for seven months because it was never fully 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 hotels accommodations, charged through corporate credit cards for employee and consultants' travels, were exceeded, as well as a prevalence of non-submission of itemized receipts.
- 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.

REMAIN FINANCIALLY STABLE

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

Management was unable to provide us with critical plans or analysis that would change the direction of VBCDC, such as:





REMAIN FINANCIALLY STABLE

Financial decisions / concerns:

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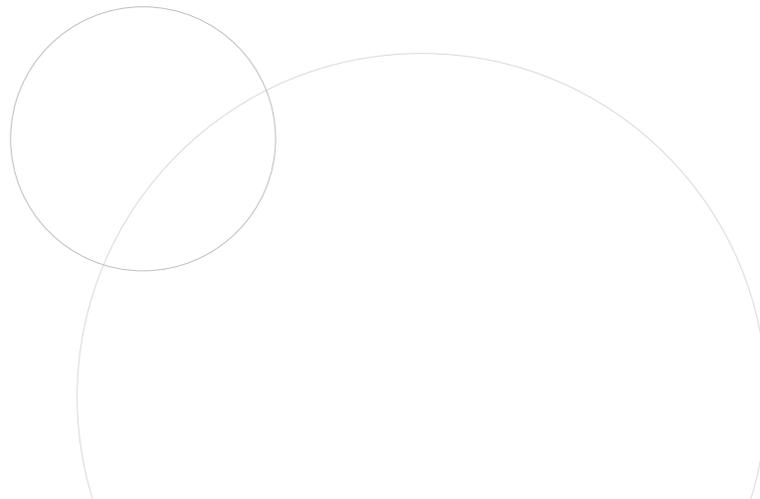
Results of Fundraising Events					
Event	Date	Revenue	Expenses	Gain/(Loss)	Comments
Top Golf	September 22, 2017	\$ 24,740	\$39,708	\$ (14,968)	
Spring Gala	Cancelled	-	\$ 30,750	\$ (30,750)	Due to lack of interested donors
	Totals	\$ 24,740	\$ 70,458	\$ (45,718)	A \$296K difference from the budgeted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



REMAIN FINANCIALLY STABLE

Finding 3: Internal Controls over Storeroom Supplies need to be Enhanced

- Access to the storeroom is not restricted. The Asset Management Director estimates that the storeroom has \$15K in supplies and another \$15K in tools, at any given time.
- There is no checkout process for supplies and equipment.
- The periodic inventory count is not effective due to the access and checkout deficiencies mentioned above.
- Additional areas where corporate policies need to be updated/developed:
 - Code of Conduct
 - Replacement Reserve Policy





SERVE MORE NEIGHBORS

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 Virginia Beach.

VBCDC was only able acquire one project having 55 units (12% of its goal).

Completed VBCDC Housing Development and Rehabilitation Projects
FY 2016 – FY 2018

Project Type	Projects in Virginia Beach	Units in Virginia Beach	Comments
Apartment Complex Acquisition	1	55	Grand Cypress Apartments purchased under the current 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 to its scattered site inventory since 2015.
Total	1	55	



SERVE MORE NEIGHBORS

Finding 5: Inability to Maintain Current Housing Stock

In 2018, 75% of VBCDC properties inspected by the City Housing Code Inspectors failed initial inspection due to code violations.

- 22% that were eventually re-inspected failed re-inspection.
- 85% had not been rescheduled for re-inspection at the time of our review.





SERVE MORE NEIGHBORS

Finding 6: Questionable Management Decisions to Outsource Facilities Maintenance Team

- VBCDC dissolved its in-house facilities team in 2015.
- Outsourcing arrangement lasted only eight months, from September 2015 to May 2016, due to contractor losses in the maintenance of VBCDC properties.
- The facilities team's current staffing of six maintenance technicians is smaller than its former size of nine. This may have driven to VBCDC's high rate of property inspection failures.

Finding 7: Discontinuation of Programs led to Lost Revenues

- Homeowner Rehabilitation Program, FY 2017 lost revenue was \$148,273
- Transitional Housing Program, FY 2017 lost revenue was \$392,393

●●● ATTRACT AND RETAIN THE BEST AND BRIGHTEST TALENT FOR ITS STAFF AND BOARD

Finding 8: Pattern of CEO Absence

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. Some of the absences appeared questionable. For example:

- *February 18, 2019 – February 21, 2019* – CEO was unable to account for her absence, stated she was attending a Conference on Attainable housing.
- *January 13, 2019* – CEO emailed staff working from home for the entire week.
- *September 2017 and October 2017* – the CEO had five out-of-state travels for conferences and meetings.
- Taking compensatory time that she had earned:
 - October 2018, sent four separate emails
 - January 2019, sent five separate emails



FINDING 8

Direct quotes from 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."*



RESIGNATION OF CEO

During the Audit, the CEO Resigned.

April 25, 2019 - CEO emailed the Board that she was resigning effective May 31, 2019.

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 - 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 named the COO as the Interim CEO.

●●● ATTRACT AND RETAIN THE BEST AND BRIGHTEST TALENT FOR ITS STAFF AND BOARD

Finding 9: Procurement Process not followed in Hiring of Consultants

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	\$ 131,310

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

- The Executive Assistant to the CEO/Board Liaison works remotely from Atlanta, GA.
- VBCDC employed a full time HR Director that worked remotely from Chicago, IL from August 2015 to August 2018.
- VBCDC incurred **\$235K** for the HR Director's compensation and thousands of dollars more on travel costs to Virginia Beach (at least once per quarter).



BOARD

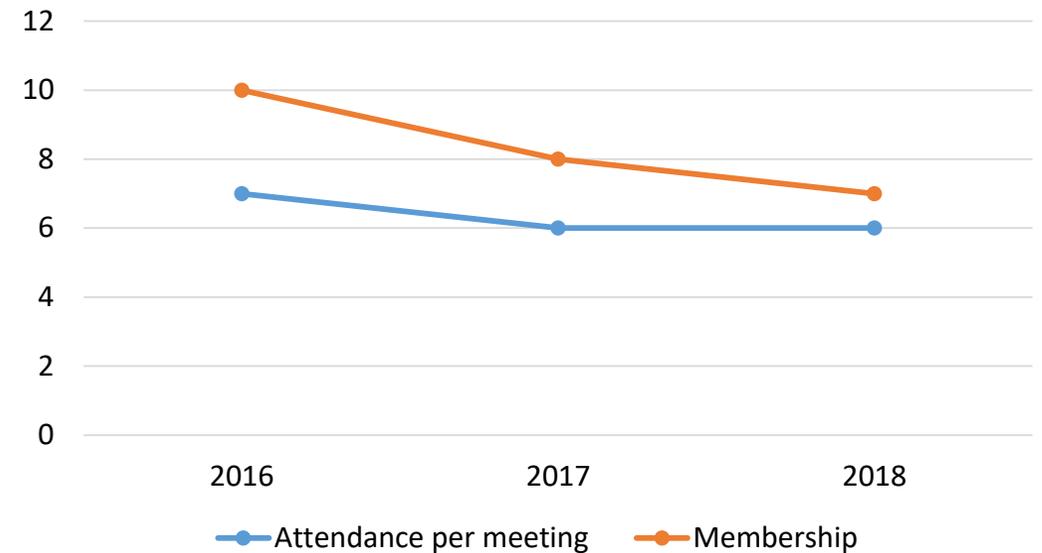
Finding 11: Low Board Makeup/Attendance has Adversely Impacted Necessary Oversight

Board membership and attendance need improvement for proper execution of governance duties.

We reviewed data from January 27, 2016 to November 28, 2018.

The attendance rate of City Council liaisons is also very low. Of the 30 Board meetings held between January 27, 2016 to November 28, 2018, one liaison was present at four meetings and both were present at one meeting, for a total attendance rate of 17%.

Average Board Attendance and Membership



●●● 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.

Finding 12: Shared Services Agreement not Followed to the Detriment of VBCDC

- *Conflict of interest:* The CEO, COO, CFO of VBCDC hold the same positions in SAC. They make the decisions for both organizations.
- VBCDC no longer charges fees or interest. Started in FY 2018, management determined that SAC no longer had the ability to pay for fees or interest due to lack of revenue prospects.
- SAC currently owes VBCDC **\$424K**.

●●●● VBCDC AND SAC'S BUSINESS RELATIONSHIP NEEDS PROFOUND DEFINITION

Finding 13: Conflict of Interest Between VBCDC/SAC Executive Management Team

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.

Management's Hours and Stipends Three-Year Average				
Managers	FYs 2016 - 2018			% 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%

●●●● VBCDC AND SAC'S BUSINESS RELATIONSHIP NEEDS PROFOUND DEFINITION

- SAC Board granted VBCDC's CEO an additional 40 hours of annual leave on August 24, 2016.

Note: 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 additional benefits.

- No Requirement for SAC to Share Development Fees With VBCDC.
- SAC has not Qualified for any CHDO Funding in Over Three Years.

●●● VBCDC AND SAC'S BUSINESS RELATIONSHIP NEEDS PROFOUND DEFINITION

Finding 14: No Requirement for SAC to Share Development Fees with VBCDC

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.

Finding 15: SAC has not Qualified for any Community Housing Development Organization Funding in Over Three Years

SAC has received \$0 because it has zero projects completed. SAC did not have qualified CHDO projects, so funding went to Habitat for Humanity and Community Alternatives.

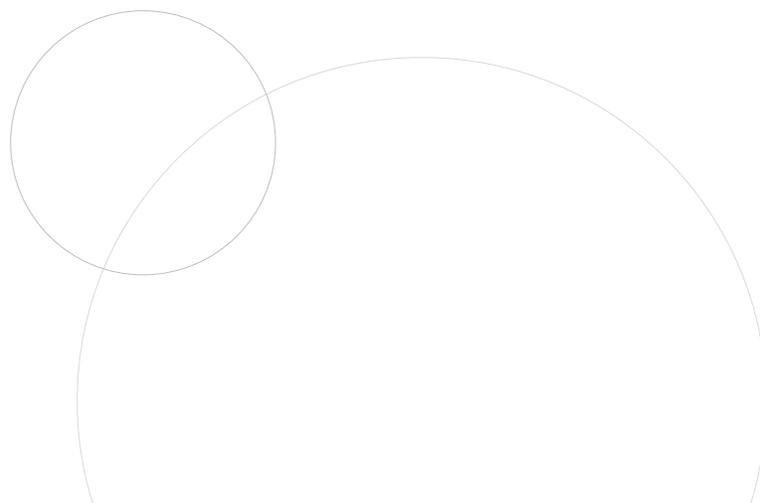
For FY 2019, the CHDO funding was **\$180K**.



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, VBCDC's sustainability and viability could adversely be impacted.





THANK YOU

