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LEGISLATIVE PERFORMANCE REVIEW
WEST VIRGINIA DEVELOPMENT OFFICE

AUDIT OVERVIEW

The Development Office's Community
Development Division Provides Adequate
Oversight of Its Grant Programs



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John Sylvia
Director

November 18, 2008

The Honorable Edwin J. Bowman
State Senate
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The Honorable Jim Morgan
House of Delegates
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Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Performance Review Act, we are transmitting a Performance Review of the *West Virginia Development Office, Community Development Division*, which will be presented to the Joint Committee on Government Operations and Joint Committee on Government Organization on Tuesday, November 18, 2008. The issue covered herein is "*The Development Office's Community Development Division Provides Adequate Oversight of Its Grant Programs.*"

We transmitted a draft copy of the report to the West Virginia Community Development Division on October 28, 2008. The agency opted not to have an exit conference. We received the agency response on November 5, 2008.

Let me know if you have any questions.

Sincerely,

Handwritten signature of John Sylvia in cursive script.
John Sylvia

JS/tlc

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EXECUTIVE SUMMARY

The Development Office's Community Development Division Provides Adequate Oversight of Its Grant Programs.

This report is a survey of the grant programs administered by the West Virginia Development Office's Community Development Division. The purpose of the survey was to determine how grants are overseen and how funds are monitored to ensure proper usage of the grants. A random sample of 176 grants was reviewed out of a total of 2,111.

PERD found changes in scope in 21 percent of the total sample. Six percent of the total sample was considered to have substantial changes in scope. Any changes in scope were reviewed for inconsistencies and that proper procedure was followed. Upon close inspection, PERD found no improprieties in these changes.

PERD found the grants to be adequately monitored through formal correspondence and receipts of purchases and services. Most grant projects are required to be audited by the West Virginia State Auditor's Office as well. However, onsite inspections of grant projects were rare in most programs.

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OBJECTIVE, SCOPE & METHODOLOGY

Ojective

The purpose of this survey is to determine the degree to which the West Virginia Development Office provides oversight of Community Development grant projects. Specifically, the presence of on-site project inspections and verification of the receipt of goods will be assessed.

Scope

A random sample of 176 grants out 2,111 total with origination dates ranging from 1999 to 2007

Methodology

Evidence was collected by reviewing pertinent files and organizing collected data into an Excel spreadsheet. Every attempt was made to place each measurement into mutually exclusive and collectively exhaustive categories. The survey will include a random sample of the entire universe of Community Development Division grants and has a confidence level of 95% and a confidence interval of +/- 7.

ISSUE 1

The Development Office's Community Development Division Provides Adequate Oversight of Its Grant Programs.

Issue Summary

The Legislative Auditor's Performance Evaluation and Research Division (PERD) conducted a survey of grant programs offered by the Development Office's Community Development Division. The seven grant programs represented in the survey are the Flex-E-Grant, Appalachian Regional Commission (ARC), Community Participation Grant Program (CPGP), Local Economic Development (LED), Local Economic Development Assistance (LEDA), Small Cities Block Grant (SCBG), and the Industrial Park Assistance Program (IPAP).

PERD's primary goals were to examine how the grants were monitored after being awarded and whether the grant money was used as intended. PERD also evaluated all changes in scope to ensure these changes were valid and fell under the qualifications of the respective grant program. PERD found the monitoring of grants to be adequate and no instances of ineligible changes in scope.

The projects are generally monitored through formal correspondence from grantees and occasional site visits by community development agents. The correspondence includes requests for payment, receipts, project descriptions and any requests for a change in the initial scope.

Grants Are Generally Monitored Through Formal Correspondence and State Audits

The projects are generally monitored through formal correspondence from grantees and occasional site visits by community development agents. The correspondence includes requests for payment, receipts, project descriptions and any requests for a change in the initial scope. Due to a limited number of field agents, on-site inspection of most projects is rare. However, there were on-site checks among several of the larger SCBG projects reviewed by PERD. On occasion, pictures of prospective project sites or project progress are included in some correspondence and reports. Grantees are also required to be audited by the West Virginia State Auditor's Office by the next fiscal year after project completion.

Due to a limited number of field agents, on-site inspection of most projects is rare. However, there were on-site checks among several of the larger SCBG projects reviewed by PERD.

Some Grants Had Changes in Scope Leading to Different Projects and Purchases

PERD examined all the grants in the survey that had changes in scope to evaluate if funds were used in accordance with the guidelines of each program. PERD found 37 instances of changes in scope, which represents 21 percent of the total sample. Of those 37, PERD found 11 (6 percent) to be substantial changes in scope such as grant money being utilized for purposes significantly or entirely different than the original project.

For example, a \$10,000 LEDA grant awarded for a digital area mapping project was changed to the purchase of a sanitation vehicle. This was warranted because, after analysis, the mapping project was deemed unaffordable. A \$50,000 CPGP grant was initially to be used for an industrial park water line. The scope was changed for the construction of an animal shelter after that project was deemed more urgent. A \$5,000 LEDA grant awarded for park upgrades was changed to fund three projects. The change in scope provided \$2,000 for building improvements, \$2,000 for the Special Olympics and \$1,000 for the original park upgrades. A \$6,000 CPGP grant for office equipment was used for the purchase of digital cameras. However, the WVDO stated no official change in scope was necessary since the cameras qualified as office equipment.

The aforementioned changes in scope led to substantially different projects than the grants were intended for originally. However, PERD found no instances where changes in scope resulted in expenditures that would be ineligible according to program descriptions. It is noted in the program descriptions section of this report that qualifications for eligible grant projects are very broad in most of these programs. Minor changes in scope include the addition of smaller projects when the initial project comes in under budget or when no other funding would be required for small expansions of the original scope.

According to Community Development officials, grantees must request changes in scope to the Community Development Division. In the case of federal grants such as ARC, if the changes fall under the guidelines of the program they are approved by the Community Development Division. In the case of partnership grants such as CPGP, changes in scope must be requested in writing with justification and resolution from a local unit of government. The Governor's Office has final approval on

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changes in scope in partnership grants. The Community Development Division's policy regarding changes in scope is described in the initial grant contracts. The initial contract language for changes in scope reads as follows:

Changes: *The WVDEVO and the Grantee may, from time to time, require changes in the scope of the services of the work to be performed hereunder. Such changes, including any increase or decrease in the amount of the Grantee's compensation and work to be performed, which are mutually agreed upon by and between the WVDEVO and the Grantee, shall be incorporated in written amendments to this Contract.*

While changes in scope are normal in such grant programs, there is the chance to abuse the system. There is the possibility an organization could apply for a grant for one project, which would likely receive the award, with the intent to change the scope to an entirely unrelated project that may not have received funding if originally requested. PERD found no evidence of this occurring in the survey sample, but a few changes in scope were deemed questionable upon initial review. According to Community Development Division officials, changes in scope are denied on occasion, though there were no examples of this in the survey sample. Table 1 shows a general breakdown of the grant programs surveyed.

While changes in scope are normal in such grant programs, there is the chance to abuse the system.

**Table 1
Breakdown of Grants Examined**

Grant Program	Number Examined	Total Money Awarded	Average Award Per Grant	Changes in Scope
Appalachian Regional Commission	1	\$645,000	\$645,000	0
Flex-E-Grant	17	\$156,835	\$9,226	4
Community Participation Grant Program	39	\$988,200	\$25,338	10
Industrial Parks Assistance Program	3	\$145,500	\$48,500	1
Local Economic Development	10	\$456,000	\$45,600	0
Local Economic Development Assistance	93	\$1,614,200	\$17,357	17
Small Cities Block Grant	14	\$11,767,380	\$840,527	5
Total	176	\$15,807,915	\$89,817	37

Source: Community Development Division Grant Files

Descriptions of Grant Programs Surveyed

Descriptions of the programs represented in the survey are as follows:

Appalachian Regional Commission Grant Program

The Appalachian Regional Commission provides federal grant funds for economic development in West Virginia and 12 other states in the Appalachian Region. Virtually any public entity and non-profit organizations are eligible. WVDO staff review project applications and make recommendations to the Governor for approval. The one ARC grant examined in this survey was awarded for a high school sewer system.

Flex-E-Grant Program

A grant of up to \$10,000 to foster civic entrepreneurship in West Virginia counties designated as distressed by the Appalachian Regional Commission (ARC). The ARC created this program in October 2000. Public entities and non-profit organizations in distressed counties are eligible. A five percent matching fund is required. WVDO staff review

and award these grants. The grants reviewed in the survey were used for various training and continued learning seminars.

Community Participation Grant Program

State grant funds to build and expand a variety of public facilities and services. Units of local government and municipalities are eligible. This program was established in 1977. The Governor announces all approvals for the program grants. Partnerships do not exceed \$50,000 though amounts vary depending on the project. Uses of CPGP funds varied widely among the survey sample. Common uses were for office and safety equipment, little league field construction, and building improvements. Other uses included special events and the publishing of a West Virginia arts book.

Local Economic Development Grant Program

Established in 1991, these grants enhance the capacity of local economic development organizations to undertake economic development activities and to complete Certified Development Community (CDC) program requirements. For the purpose of this program, a community is either a county or multi-county region. Applicants may receive up to \$34,000 in matching grant funds. Single county applicants must have an equal cash match, while multi-county or regional development organizations must match half of the grant amount. The county commission must issue a resolution that the organization applying is the county's lead economic development entity to be eligible. The grants in the survey sample were designated for a wide variety of local development initiatives as well as office operations and salaries of local development organizations.

Uses of CPGP funds varied widely among the survey sample. Common uses were for office and safety equipment, little league field construction, and building improvements.

Small Cities Block Grant

Federal funds for a variety of community and economic development projects. In 1981, Congress amended the Housing and Community Development Act of 1974 to allow states to administer this program with federal funding. Only units of local government such as counties and municipalities are eligible. Nonprofits and other public organizations are only eligible through a subgrant agreement with a unit of local government. The Governor announces approval of all SCBG funds. The majority of SCBG awards included in the survey were used for water and sewer projects. Other uses included street paving, renovations and

the acquisition and subsequent demolition of buildings.

Local Economic Development Assistance

Originating in FY 1999, these grants are state funds for a variety of economic development projects. Units of local government and municipalities are eligible. Awards generally range from \$25,000 to \$50,000, but vary. Three LEDA grants in the survey were over \$100,000. Over half of all grants surveyed were from this program. Projects varied widely, but building and utility renovations, little league field improvements, vehicle and equipment purchases and special events were reoccurring uses.

Industrial Parks Assistance Program

State grant funds mainly used towards industrial parks and related projects. Units of local government and municipalities are eligible. Awards generally range from \$25,000 to \$50,000. This program originated in FY 1997 but was not appropriated for FY 2009. The three IPAP grants surveyed are for the improvement and development of industrial parks complexes. One was used to relocate a little league field to facilitate development.

Awards generally range from \$25,000 to \$50,000. Three LEDA grants in the survey were over \$100,000.

Other Development Programs Offered by the Community Development Division

Because the grants included in the survey were selected at random, some similar programs were not represented in the sample. Those programs are:

Land and Water Conservation Fund

The program provides supplemental federal funding for the acquisition and/or development of high-quality, public outdoor recreational areas throughout West Virginia. Assisted or acquired parklands are bound by perpetual restrictive covenants that obligate the project sponsor to operate and maintain the defined project area as a public outdoor recreational facility. Units of local government, independent park boards, commissions, districts and state government are eligible. The governor recommends candidate projects to the National Park Service, which makes the final funding decisions. These are 50/50 reimbursable matching grants. Total project cost can vary widely from \$70,000 to

Because the grants included in the survey were selected at random, some similar programs were not represented in the sample.

\$900,000. Small Cities Block Grant funds can be used for the required matching share.

Neighborhood Investment Program

While not a grant program, the Neighborhood Investment Program (NIP) is administered by the Community Development Division. In this program, 501 (c) charitable organizations apply to the Development Office to receive tax credit vouchers. The organizations must meet the approval of the NIP Advisory Board to receive vouchers. These vouchers encourage businesses and individuals to contribute to the approved charitable organizations. A minimum donation of \$500 to a maximum of \$200,000 is eligible to receive the tax voucher. Contributors then receive 50 percent of the donated amount in state tax credits. The Legislature sets aside \$2 million for this program.

The changes in scope of the grants that were surveyed all appear to be reasonable changes, with justifiable causes and eligible grant expenditures.

Conclusion

PERD found that the Community Development Division is adequately monitoring the expenditures of grant funds. The agency frequently requests information concerning the expenditures of the grantee to confirm the proper use of grant funds, as well as maintain a measure of accountability in the use of the funds. PERD found no instances of improper changes in the scope of grant requests. The changes in scope of the grants that were surveyed all appear to be reasonable changes, with justifiable causes and eligible grant expenditures. Overall, most projects are worthwhile and successful. With minimal exceptions, the programs are generally administered and managed efficiently.

Appendix A: Transmittal Letter

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John Sylvia
Director

October 28, 2008

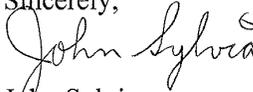
Theresa Harper, Administrative Services Assistant
Community Development Division
West Virginia Development Office
1900 Kanawha Blvd. E.
Charleston, West Virginia 25305

Dear Ms. Harper:

This is to transmit a draft copy of the Performance Review of the West Virginia Development Office, Community Development Division. This report is scheduled to be presented during the November 16-18, 2008 interim meeting of the Joint Committee on Government Operations and Joint Committee on Government Organization. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committee may have.

If you would like to schedule an exit conference to discuss any concerns you may have with the report, please notify us by October 31, 2008. We need your written response by noon on Wednesday, November 5, 2008, in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, November 6, 2008 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

John Sylvia

Joint Committee on Government and Finance

Appendix B: Agency Response



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November 3, 2008

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PERFORMANCE EVALUATION AND
RESEARCH DIVISION

Mr. John Sylvia
Director
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
Charleston, West Virginia 25305

Dear Mr. Sylvia:

The West Virginia Development Office would like to thank you and your staff for the Performance Review of our Community Development Division's grant programs.

I am pleased to see that that our agency has adequately monitored the expenditure of funds. Although we do have measures in place to insure that all procedures are appropriately followed, I recognize, as you noted, the possibility of abuse occurring in the application and change of scope processes. On that note, I have asked that fraud and abuse measures be a major focus of our grant programs.

Thank you again for your review and we look forward to attending your presentation to the Legislature.

Sincerely,

A handwritten signature in blue ink that reads "Kelley M. Goes".

Kelley Goes
Executive Director

KG:bl



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