

“As a manager, I own the operational and financial processes I manage. Through VHDA’s Risk and Control Self Assessment System, I now have an automated mechanism that helps me manage the risks associated with those processes.”

Tom Dolce – VHDA Managing Director, Servicing and Compliance

1. Brief Description of VHDA’s eRisk Management System

Our environment is constantly changing, as seen by the upheaval and crisis in the housing and financial markets. As a result, VHDA established the *eRisk Management System* as a automated, structured, Authority-wide governance approach to risk management designed to quickly and effectively identify, quantify, respond to, and monitor the consequences of potential events that could negatively affect VHDA.

Risks generally fall into one of three classes:

- Financial risks, such as not having adequate reserves to cover potential loan losses, or the loan losses that may result from errors in perfecting mortgage insurance;
- Mission risks, such as allocating subsidy resources for less critical needs before the most critical needs are met, and potential inappropriate use of funds by recipient organizations; and
- Reputational risks, such as the stigma of having a run-down property in our portfolio associated with our name, and unqualified tenants residing in properties we finance.

This new initiative ensures that processes are in place to address unacceptable levels of risk and uncertainty, and that they are identified, managed, and addressed, thereby increasing the likelihood of successfully reaching VHDA’s stated objectives. For example, on the Single Family side, after our risk identification process we strengthened our underwriting standards to reduce the risk of loan loss and to assure sustainable homeownership for our borrowers. On the multifamily side, we established specific risk evaluation criteria for our properties to ensure we can better monitor and manage them to assure their quality for our residents as well as limit losses.

It gives management an effective tool to ensure that VHDA’s risk management techniques are appropriate to new market realities and adequately reflect VHDA’s risk appetite as it relates to today’s environment. The program utilizes an automated system which was written in-house to assist management with providing their assessments and certifications.

One of the program’s main goals is to certify that process risks have been identified and the controls in place to address these risks have been evaluated and are determined to be functioning as designed. Thus, the Executive Director can certify to external auditors that overall controls at VHDA are adequate and effective.

Steps for managers using the new program include:

1. *Identify*, document and periodically review each *key process* within each business area and its *objective*.
2. *Evaluate* each process for inherent *risks* and *identify* their *significance*.
3. *Assess* the risk *exposures*.
4. *Validate* the *significance* of each risk
5. *Identify* the *control processes* for each risk.

6. *Perform a control design assessment.*
7. *Develop control test procedures.*
8. *Perform the control tests.*
9. *Certify for each process that inherent risks have been successfully mitigated.*

2. Why It Was Undertaken

It is management's responsibility to identify the risks associated with the operations they manage and to design and implement procedures and controls that will effectively mitigate those risks. Therefore, management is the owner of internal control. This is the premise around which various laws and private initiatives have been based over the last several years, including the most recent of those, The Sarbanes-Oxley Act (SOX). SOX even goes a step further than other initiatives by stating that management, as the owner of the controls, is not only responsible for annually assessing their adequacy, but also for certifying that they are functioning as designed. SOX requires that managers:

- implement a *Risk and Control Self Assessment Program* that **verifies** that key controls are in place and functioning as designed, and
- **certify** annually to upper management that this verification has taken place.

3. What VHDA Has Accomplished

The *eRisk Management System's* automated process provides an efficient means of ensuring a 100% review of key financial and operational processes, as well as certifying that the activity based risks inherent in these processes have been identified and are being adequately controlled. The net result is that for very little cost and time we can provide improved management awareness and understanding of process risks and controls, and provide a mechanism to maintain process effectiveness.

4. Why the Risk and Control Self Assessment Program is Meritorious & Meets NCSHA Judging Criteria

Innovative

VHDA's *eRisk Management System* is innovative because it allows management to self-access their controls frequently and in real time rather than having the Audit Department perform this function every three to five years, which in most cases takes place after process failures have occurred. By performing self assessments of their risks and controls on an ongoing basis, management can avoid most, if not all, of these process pit-falls.

Replicable

This program is easily replicable by any HFA's. By tailoring a control self-assessment tool for their own agency and creating a standard automated matrix format, they can create a system that takes very little of management's time to perform on an annual basis but provides a significant benefit – more awareness of risk and more timely identification of those risks, which leads to better control over those risks.

Respond to a management challenge or opportunity

This program responds effectively and efficiently to the risks associated with one of the most significant financial and housing crises this nation has ever witnessed.

Achieve measurable improvements in agency operations

VHDA finished its first certification cycle in June 2010. All divisions certified that their risks and controls were evaluated and found to be functioning adequately and as designed, thereby achieving a **100 percent certification rate**. All managers certified that established controls were in place and effective. Because the control self assessment program challenges management to revisit, evaluate and assess the risk and control aspects of their operational processes, their risk awareness has increased, resulting in tighter, more effective controls.

Provide benefits that outweigh costs

VHDA built the automated system internally, and IT costs were approximately \$50,000. Management believes this was a small cost for the benefit of improved activity based controls. Additionally, costs were minimal after implementation, and management's time cost is only a few hours per year.

Demonstrate effective use of resources

This program allows managers to assess their own risks and controls, thus allowing the Audit Division to operate in an assurance role. The program also provides a single automated tool that is utilized by both management and Audit to accomplish their respective tasks.

Achieve Strategic Objectives

The program proactively helps management focus on mitigating risk factors that could keep VHDA from achieving its strategic objectives. And, it plays an important part in limiting losses and maintaining VHDA's AAA bond rating by helping us meet the control expectations of rating agencies.

Conclusion

By automating and placing managers in charge of their own risk processes, VHDA's *eRisk Management System* puts better controls in place to detect financial, mission, and reputational risks that could prevent us from achieving our organizational objectives. In turn, these risks are more proactively addressed and mitigated. VHDA has achieved a 100% certification rate with this program – all divisions have certified that their risks and controls were evaluated and found to be functioning adequately and as designed. This program has helped VHDA limit its losses and maintain its AAA bond rating, because effectiveness of an organization's controls are one of the main factors that ratings agencies take into account in their evaluations. It has been particularly beneficial in helping us manage our financial risks during this period of unprecedented economic uncertainty and upheaval.