

“As a manager, I own the operational and financial processes I manage. Our iRisk Program gives me a mechanism to help control the risks associated with these processes and also to hold my staff accountable.”

Tom Dolce – VHDA Managing Director, Servicing and Compliance

Brief Description

The environment in which businesses operate is constantly changing. This is especially true for those businesses operating in today’s volatile housing industry. Each change in the environment is accompanied by new risks, and the need to be able to anticipate and respond to them appropriately. VHDA’s iRisk Program was developed to be a structured, coordinated, authority-wide governance approach to risk management that emphasizes the accountability of managers instead of relying on internal audits. It is designed to identify, quantify, respond to and monitor the consequences of potential events that could negatively impact VHDA.

By ensuring that unacceptable levels of financial risk and uncertainty are identified, managed and addressed, iRisk increases the probability that VHDA will be successful in achieving established organizational objectives. This program gives management an effective tool to ensure that all risk management techniques being used are appropriate to new market realities and adequately reflect our organization’s risk appetite as it relates to today’s environment. The program is also a valuable tool for minimizing the impact of risk, as well as for maximizing the realization of its opportunities.

iRisk is based on an ongoing process requiring, on a cyclical basis, written acknowledgement from each division director that risk and control self-assessment tasks have been successfully performed within the last cycle period for each key business process in their division. The self-assessment program uses an automated system, written in-house, that makes it easier for management to provide their evaluations and certifications. The start and end date of a certification cycle is determined by Internal Audit, and runs approximately 12 months.

One of the program’s goals is to certify to the Executive Director that financial and process risks have been identified, that the controls in place to address these risks have been evaluated and tested where appropriate, and have been determined to be functioning as designed. This enables the Executive Director to certify to external auditors that overall controls at VHDA are adequate and functioning as designed.

Managers involved with the iRisk Program take steps to:

1. Identify, document and periodically review each key process, and its objective, within each business area.
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.

Why It Was Undertaken

Management’s responsibilities include planning, organizing, directing and *controlling*. As such, it is management’s responsibility to identify any risks associated with the operations they manage and to design and implement a system of procedures and controls that will effectively mitigate those risks.

What this means is that management is the owner of internal control. This premise is the basis of various laws and private initiatives created over the last several years, including the most recent of these, The Sarbanes-Oxley Act (SOX). SOX goes a step further than the other initiatives by saying 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.

As such, SOX demands from managers, as the owners of internal control, that they:

- Implement a risk and control self-assessment program (iRisk) that *verifies* that key controls are in place and functioning as designed, and
- *Certify* annually to upper management that this verification has taken place.

Our quasi-governmental status means that VHDA is not subject to the SOX legislation. Still, VHDA's Board believes many SOX concepts represent best practice, particularly as they relate to risk and control self-assessment, and has directed they be a part of VHDA's overall Risk Management Plan.

What VHDA Has Accomplished

During our first year under the iRisk Program, all key operational processes were successfully certified by fiscal year end. This program has successfully met the directives of our Board to adopt and implement SOX best practices. It has also become a vital cog in our overall enterprise risk management program by clearly placing the responsibility for the successful mitigation of operational risks on the shoulders of line and division management. We anticipate that the implementation of this program will result in enhanced understanding by managers of their operational risks and exposures as well as improved activity-based controls.

In addition, automating the process provides an efficient means of ensuring 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 time and money, VHDA can provide improved management awareness and understanding of process risks and controls, thereby giving managers a mechanism to maintain process effectiveness.

Why It Is Meritorious and Meets NCSHA Judging Criteria

Innovative

VHDA's iRisk Program is innovative because it allows management to review and evaluate their controls frequently and in real time. In the past, VHDA's Audit Department performed this function every three to five years, which in most cases meant it took place long after process failures occurred. By performing self-assessments of their risks and controls on an ongoing basis, management can avoid most, if not all, of these process pitfalls.

In addition, our iRisk Program is:

- An integral part of VHDA organizational processes and decision making.
- Able to explicitly address uncertainty and assumptions.
- Systematic and structured.
- Based on the best available information.
- Dynamic, iterative and responsive to change.
- Capable of continual improvement and enhancement.

Replicable

This program is easily replicable by any HFA. 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.

Responds to a management challenge or opportunity

The challenge to create this program came from our Board – they saw what SOX required and wanted VHDA to implement the risk and control self-assessment portion of the legislation. In addition, the program complements VHDA’s overall Enterprise Risk Management Plan, an agency-wide approach to identifying and addressing risks.

Achieves measurable improvements in agency operations

VHDA finished its first certification cycle in June 2010. During the first two years, management was able to certify that controls over 100% of identified risks – translating to 208 separate processes – were in place and functioning as designed. 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. In addition, these controls have helped VHDA receive a very favorable rating from Standard & Poor’s this year. The S&P report stated that VHDA has the second-largest asset base of all housing finance agencies, and that while the current performance level of VHDA’s mortgage loan portfolio reflects the adverse economic environment, it is mitigated by the strong oversight and asset management of VHDA.

Provide benefits that outweigh costs

VHDA built our automated program internally, and ITS costs were approximately \$50,000. Management believes this was a small cost for the benefit of improved activity-based controls. In addition, 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 used by both management and Audit to accomplish their separate tasks.

Achieve Strategic Objectives

The iRisk Program proactively helps management focus on mitigating risk factors that could keep VHDA from achieving its strategic objectives.

Conclusion

In today’s world, managing risk is a necessity, not an option. iRisk helps VHDA identify and manage the impacts of financial and process risks to our business and customers. VHDA is mindful that our mission demands we use our resources prudently and productively. In fact, our customers, stakeholders, business partners, the state legislature and the citizens of the Commonwealth of Virginia expect this of us. As a result, running a lean, efficient and effective operation is imperative if VHDA is to continue to be a successful, credible and respected organization in the affordable housing arena.

Although VHDA has always been a well-managed and well-controlled organization, our iRisk Program is an efficient means to ensure management’s timely identification of risks and review of the adequacy of established mitigating controls. In fact, Standard & Poor’s rated VHDA very highly in all aspects of HFA management. This rating is directly linked to the iRisk program’s focus on regular self-assessment and improvement of controls. It provides a proactive approach to identify our risk environment and detect possible problems before they occur. Being proactive allows us to minimize losses and waste and better position resources to ensure the accomplishment of VHDA’s short and long-term strategic objectives.

Attachment: iRisk Refresher Course for VHDA Associates

<https://apps.vhda.com/applications/vhdacommunications/RiskRefresher/player.html>