



# DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF APRIL 2023

Auditor of Public Accounts  
Staci A. Henshaw, CPA

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# Commonwealth of Virginia

## Auditor of Public Accounts

Staci A. Henshaw, CPA  
Auditor of Public Accounts

P.O. Box 1295  
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June 12, 2023

Bryan Horn, Director  
Department of Housing and Community Development  
600 East Main Street, Suite 300  
Richmond, VA 23219

### INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Housing and Community Development** (Housing and Community Development). We completed the review on April 7, 2023. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Housing and Community Development is responsible for establishing and maintaining an effective control environment.

#### Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for Housing and Community Development. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

## **Review Procedures**

We evaluated the agency's corrective action for all prior review findings, including findings in the reports titled [Department of Housing and Community Development Internal Control Questionnaire Review Results as of June 2019](#) and [Cycled Agency Information Systems Security Review for the year ended June 30, 2019](#), except for the finding related to access controls since it was out of scope for this review. The agency has taken adequate corrective action with respect to all other review findings reported in prior reviews from 2019 that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary, while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Housing and Community Development's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated Housing and Community Development's processes for completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources, revenues and expenses, capital assets, grants management, and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

## **Review Results**

We noted the following areas requiring management's attention resulting from our review:

- **Repeat** - Housing and Community Development was unable to provide evidence of senior management's review and approval of the Code of Ethics and agency policies and procedures to demonstrate thorough documentation of key controls and actual processes performed by agency employees, as required by Accounts. Housing and Community Development should retain evidence of senior management's review and approval of the Code of Ethics and agency policies and procedures.

- **Partial Repeat** - Housing and Community Development has continued to improve their ARMICS reporting to Accounts; however, Housing and Community Development did not consider the risk of fraud during the transaction risk assessment as required by Accounts. Housing and Community Development should consider and document the risk of fraud during the transaction risk assessment.
- **Partial Repeat** - Housing and Community Development did not implement policies and procedures to perform reconciliations between the Commonwealth's personnel management system and retirement system, in accordance with Commonwealth's Accounting Policies and Procedures Manual (CAPP Manual) Topic 50410. Since our last review, Housing and Community Development updated their policies and procedures to ensure the review of the Cancelled Records Report, which shows data discrepancies between the Commonwealth's personnel management system and retirement system.
- **Partial Repeat** - Housing and Community Development does not have adequate controls over information technology (IT) governance, as required by the Commonwealth's Information Security Standard, SEC 501 (Security Standard). Since the last review, Housing and Community Development has retained the memorandum of understanding (MOU) between the itself and the Virginia Information Technologies Agency (VITA). However, Housing and Community Development does not separate the roles of the Information Security Officer (ISO) and the Chief Information Officer (CIO) as required by Security Standard section 2.4.1, which states that the ISO must not simultaneously serve the function of a CIO. A lack of separation of duties between the ISO and CIO can lead to inadequate independent oversight of IT security. Housing and Community Development has limited technical resources and staff, which has resulted in the assignment of CIO and ISO responsibilities to one individual. Housing and Community Development was unaware that the Security Standard requires an exception for the same individual to perform the CIO and ISO responsibilities. Housing and Community Development should continue to obtain the necessary resources to allow for separation between the CIO and ISO.
- Housing and Community Development does not have policies and procedures related to its responsibilities for payroll. Housing and Community Development outsources its payroll function to the Payroll Service Bureau. However, Housing and Community Development is responsible for verification of Human Resources' updates to payroll, review of registrations, process of informing the Payroll Service Bureau of any changes, etc. Housing and Community Development should implement policies and procedures over its payroll function.
- Housing and Community Development did not perform an agency level risk assessment as required by Accounts during ARMICS reporting. Additionally, Housing and Community Development did not retain documentation verifying that it identified controls over significant fiscal processes. Housing and Community Development should improve documentation in these areas to meet the minimum ARMICS requirements.

- Housing and Community Development has approximately \$710,000 in capital assets, including agency-owned vehicles; however, it has not implemented a physical asset inventory count at least once every two years in accordance with the CAPP Manual Topics 30505 and 30605. Housing and Community Development performed its last physical asset inventory count in May 2016. Housing and Community Development should allocate resources to ensure the performance of a physical asset inventory count at least once every two years.

We discussed these matters with management on May 18, 2023. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Staci A. Henshaw  
Auditor of Public Accounts

MAS/vks



Glenn A. Youngkin  
Governor

Caren Merrick  
Secretary of  
Commerce and Trade

## COMMONWEALTH of VIRGINIA

DEPARTMENT OF  
HOUSING AND COMMUNITY DEVELOPMENT

Bryan W. Horn  
Director

July 24, 2023

Staci A. Henshaw  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Henshaw,

Thank you for the opportunity to respond to your most recent review of the Internal Control Questionnaire (ICQ) and results letter dated June 12, 2023, for the Department of Housing and Community Development (DHCD). DHCD recognizes the importance of internal controls and compliance with internal and Commonwealth policies and procedures, acknowledges the recommendations noted, and will make every effort to come into full compliance.

DHCD has/will complete the below actions over the next couple of months to ensure compliance:

### Code of Ethics

DHCD senior management will conduct a periodic review of the Code of Ethics and agency policies and procedures and maintain documentation of approvals.

### ARMICS

DHCD has updated our policies and procedures to include an agency-level and transaction-level assessment of fraud risk.

### Reconciliation – Personnel Management and Retirement System

DHCD has updated our policies and procedures to include a reconciliation of the personnel management system and the retirement system.

### Information Technology (IT) Governance

DHCD has received an exception approval for Security Standard section 2.4.1 which states that the Information Security Officer (ISO) must not simultaneously serve the function of a Chief Information Officer (CIO). Additionally, DHCD is exploring options to assign the ISO role to a separate position that reports to the Executive Director.



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#### Policies & Procedures – Payroll Function

DHCD has updated our policies and procedures to include roles and responsibilities for activities with the Payroll Services Bureau.

#### Capital Assets

DHCD conducted a physical asset inventory in July 2023 and will ensure to perform inventory at least once every two years.

We appreciate you and your audit team for this review and especially for the recommendations and guidance given as a result. We thank you all for the time, attention, detail, and professionalism shown. Furthermore, we welcome the opportunity to identify and strengthen any areas of weaknesses and look forward to working with you both now and in the future.

Sincerely,

Danielle Robertson  
Chief Financial Officer, DHCD



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