



DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2012 THROUGH JANUARY 31, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA
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AUDIT SUMMARY

Our audit of the Department of Housing and Community Development (Department) for the period July 1, 2012, through January 31, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System (CARS) and the Department's internal accounting system;
- two matters involving internal control and its operation necessary to bring to management's attention;
- two instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- the Department took appropriate corrective action to resolve all findings reported in our previous report.

The Department implemented Cardinal, the Commonwealth's new accounting and financial reporting system, on February 1, 2016. Due to the Department's transition to Cardinal, we extended our audit period to cover all activity through the transition date.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve CAMS System Security Controls

Type of Finding: Internal Control and Compliance

The Department did not implement some of the internal controls, required by the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard) and industry best practices, to protect its Centralized Application Management System (CAMS). CAMS is a web-based grants management system that processes and stores sensitive data including personally identifiable information, and federal employer identification number records.

We identified five internal control weaknesses and communicated them to management in a separate document, marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, due to it containing descriptions of security mechanisms. The Department did not identify these weaknesses because it did not dedicate the necessary resources to implement the internal controls required by internal policy and the Security Standard to the CAMS environment. The Department has limited technical and information systems security resources in place to implement the necessary security controls required by the Security Standard, industry best practice, and internal security policy. The Security Standard requires implementing specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability.

The Department should dedicate the necessary resources to develop a plan to implement the internal controls referenced within the communication marked FOIA-Exempt, and as required by internal policy and the Security Standard. Based on this developed plan, the Department should then implement the associated internal control improvements for CAMS in a timely manner.

Strengthen Internal Controls over Retirement Contribution Reconciliations

Type of Finding: Internal Control and Compliance

The Department needs to strengthen its internal controls over *myVRS* Navigator reconciliations to confirm that it properly reconciles *myVRS* Navigator to the Personnel Management Information System (PMIS) prior to the monthly contribution confirmation. The Department uses *myVRS* Navigator to maintain a record of its employee retirement contributions and PMIS to track personnel related information. Further, the Virginia Retirement System (System) uses the data within *myVRS* Navigator to estimate the Commonwealth's pension liability.

Although the Department does a reasonableness check between the amounts reported within *myVRS* Navigator and PMIS, it does not reconcile the actual dollar amounts between each system. Topic 50410 of the Commonwealth's Accounting Policies and Procedures Manual requires agencies to perform a retirement reconciliation(s) to ensure that it has properly identified the creditable compensation for the current month and that it reports its employees in the proper *myVRS* Navigator retirement plan codes. The Department did not update its processes because it was unclear of the extent of its responsibilities for reconciling payroll and *myVRS* Navigator related

information when the responsibilities shifted from the System to member agencies. Without performing sufficient reconciliations, the Department cannot provide the System with assurance that the data within is accurate and places the Commonwealth at risk of potentially misstating its pension liability.

The Department should strengthen its process to confirm that it properly reconciles all data elements, which affect retirement benefits, prior to confirming the monthly contribution. Additionally, the Department should document its reconciliation processes to confirm that it performs the reconciliations consistently going forward. By doing such, the Department will be able to provide assurance that the information in *myVRS Navigator* is accurate.

AGENCY HIGHLIGHTS

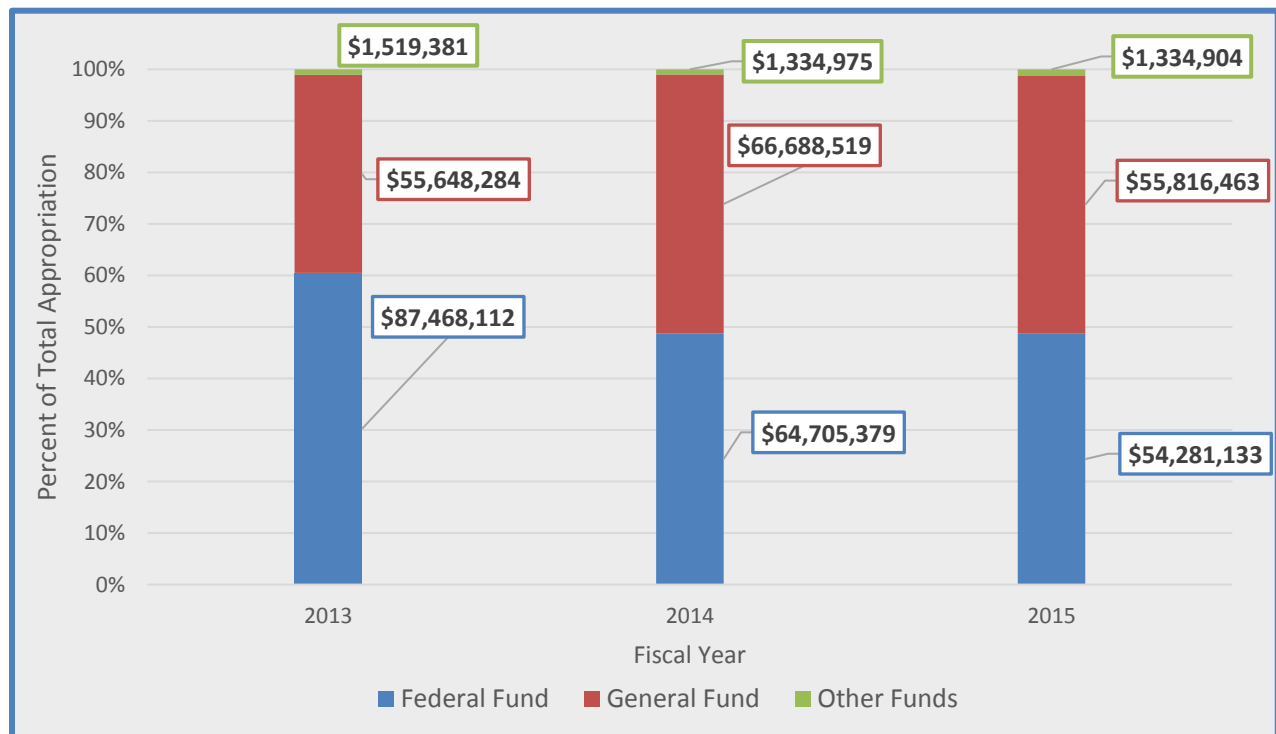
The Department's mission is to work in partnership to make Virginia's communities safe, affordable, and prosperous places in which to live, work, and do business. In its efforts, the Department partners with local governments, federal and state agencies, non-profit organizations, and others to improve housing, encourage community development, and regulate Virginia's building and fire codes.

Financial Information

As shown in Chart 1, nearly half of the Department's funding comes from the federal government in the form of grants. The Department receives federal funds to support its housing and community development initiatives. Federal funding has decreased over the last several years because of federal budget sequestration. The Department also receives General Fund appropriations, which it uses to match federal grant funds and support state mandated initiatives, such as regulating Virginia's building and fire codes and administering state grant programs.

Appropriations by Fund for Fiscal Years 2013, 2014, and 2015

Chart 1



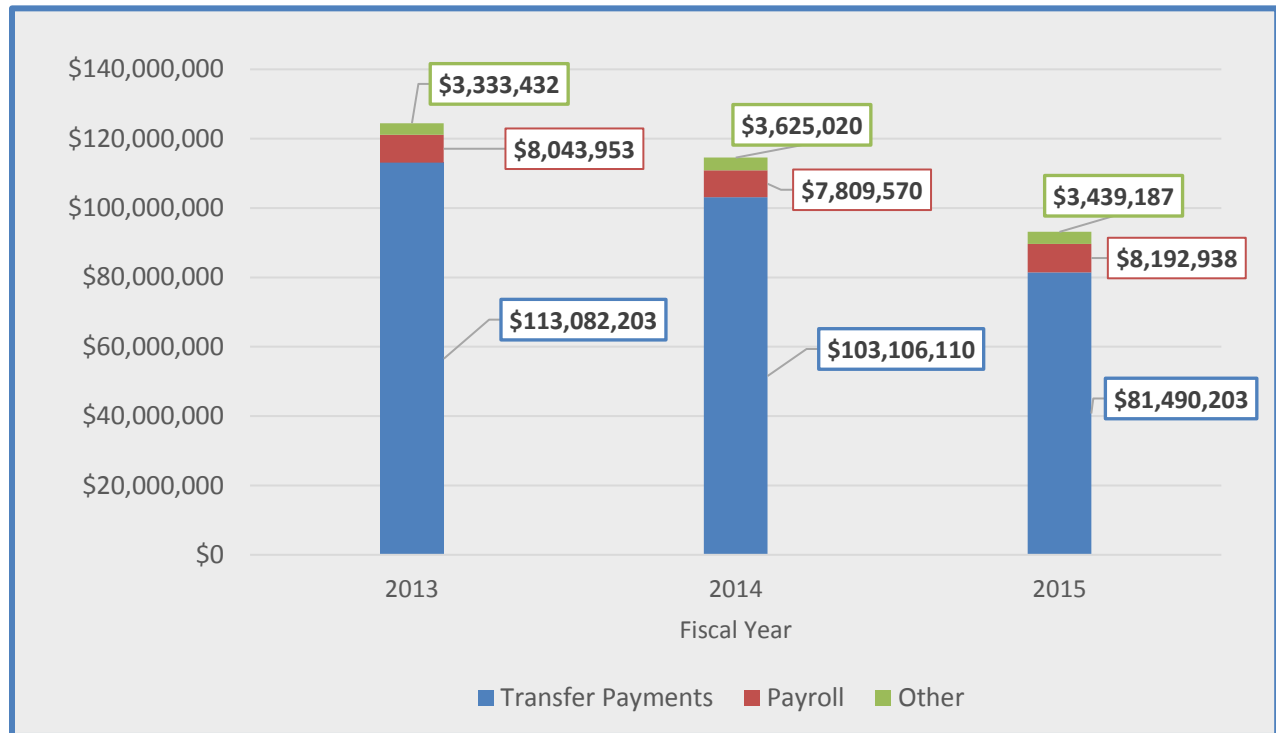
Source: CARS

The Department spends the majority of its funds on transfer or pass-through payments to sub-grantees, as shown in Chart 2. The majority of its sub-grantees are non-profit organizations; however, the Department also provides funding to other State agencies and local governments. Sub-grantees use these funds to provide direct services to the Department's customers or stakeholders.

As a condition to accepting grant awards from the federal government, the Department is responsible for overseeing or monitoring its sub-grantees to ensure they comply with applicable laws and regulations.

Expenses by Type for Fiscal Years 2013, 2014, and 2015

Chart 2



Source: CARS



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 8, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Housing and Community Development (Department)** for the period July 1, 2012, through January 31, 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and the Department's internal accounting system, review the adequacy of the Department's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Appropriations
- Federal Grant Revenues and Expenses
- Grants Management
- Payroll Expenses
- Information System Security
- Retirement Contributions and Reconciliations

Our audit did not include the Urban Public-Private Partnership Redevelopment Fund or the Virginia Removal or Rehabilitation of Derelict Structures Fund, which are covered in a separate report.

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting and its internal accounting system. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on November 4, 2016. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

MAS/alh



Terence R. McAuliffe
Governor

Todd P. Haymore
Secretary of
Commerce and Trade

COMMONWEALTH of VIRGINIA

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

William C. Shelton
Director

November 10, 2016

Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond Virginia 23218

Dear Ms. Mavredes:

The Department of Housing and Community Development (DHCD) appreciates the opportunity to respond to the report issued by the Auditor of Public Accounts for fiscal years ended June 30, 2013, June 30, 2014, June 30, 2015, and the period beginning July 1, 2015 through January 31, 2016. The report contains two findings.

The first finding recommends that DHCD improve its internal controls to protect our Centralized Application Management System (CAMS) which is a web-based grant management system. There were five recommendations from the APA auditors. Four recommendations have been completed. We are currently defining our baseline software configurations to complete the last one which will be completed within the next 60 days.

The second finding recommended that DHCD strengthen its internal controls over the myVRS Navigator reconciliations to the Personnel Management Information System (PMIS). We developed reconciliation procedures and presented them to the APA auditors during the audit. Our Human Resource staff is performing these monthly reconciliations following guidelines provided by the Department of Accounts in the Commonwealth's Accounting Policies and Procedures Manual.

DHCD will continue to enhance its internal controls in these areas and plans to ensure that these findings will not reoccur in the future.

Sincerely,

Bill Shelton

Partners for Better Communities



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DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

As of January 31, 2016

William C. Shelton, Director

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