

Internal Audit Department  
NeighborWorks® America

# Audit Review of Ex-Employees Consulting Contracts

Project Number: NWA.PROC-EXCONT.2016

# Audit Review of Ex-Employees Consulting Contracts

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March 18, 2016

To: NeighborWorks America Audit Committee

Subject: **Ex-Employees Consulting Contracts**

Please find enclosed our draft audit report for the Ex-Employees Consulting Contracts review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi  
Chief Audit Executive

Attachment

cc: P. Weech  
T. Chabolla  
J. Bryson  
L. Williams  
I. Williams

**Function Responsibility and Internal Control Assessment  
Audit Review of Ex-Employees Consulting Contracts**

Business Function Responsibility	Report Date	Period Covered
Procurement	March 18, 2016	February 2, 2015 Through September 30, 2015
<b>Assessment of Internal Control Structure</b>		
Effectiveness and Efficiency of Operations	<b>Generally Effective<sup>1</sup></b>	
Reliability of Financial Reporting	<b>Not Applicable</b>	
Compliance with Applicable Laws and Regulations	<b>Not Applicable</b>	

This report was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

<sup>1</sup> **Legend for Assessment of Internal Control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

## Executive Summary of Observations, Recommendations and Management Responses

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p><b>Observation No. 1 – Lack of ability to provide the population via systemic reporting</b></p> <p>Manual controls inherently carry higher risk when compared to automated controls. The population of contracts awarded was obtained from a manual listing in an excel file that is maintained by Procurement. In the absence of systemic reporting, the level of assurance regarding the completeness and accuracy of the population is limited. The manual component of this process increases the risk of human error with regard to data entry.</p> <p>Risk Rating: (b) (5)</p>	<p><b>Yes</b></p>	<p><b>Recommendation No. 1 – Pursue plan to implement systemic reporting for contracts</b></p> <p>Ideally, there should be a way to run reports from the ERP system that would return a complete listing of data based on predefined criteria. Additionally, there are change controls within systemic reports that allow for users to identify when parameters were changed and who made the changes. Systemic reports would ensure that the population is complete and accurate by mitigating the risk of human error that is inherent in manual listings. The Corporation is in the process of purchasing a new ERP system that should take</p>	<p><b>Yes</b></p>	<p>We anticipate that implementation of new ERP (Core Financial) system will assist in report running to provide the required data and be able to provide change controls.</p>	<p>December 2017</p>	<p>IA accepts Management's response</p>

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
		into account this requirement, as it conducts a User Requirement phase of the system needs.				

## RISK Rating Legend

### Risk Rating: HIGH

A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation's reputation.

### Risk Rating: Moderate

A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

### Risk Rating: Low

A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

<b>Management Responses to The Audit Review of:  Ex-employee Consulting Contracts</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
1	Agreement with the recommendation(s)	1
	Disagreement with the recommendation(s)	

## **Background**

In order to carry out the goals of the organization, NeighborWorks will retain the service of outside consultants on an as needed basis. The Corporation has in the past occasionally had to retain the services of ex-employees for various reasons as a subject matter expert, or unique skills they carry or time constraints. Former NeighborWorks® America staff are subjected to a “cooling off period of 12 months” after their date of departure before they can become eligible for hire as a NeighborWorks America consultant. Per the current administrative manual, section 903, exceptions will be rarely made, but when very special circumstances exist, exceptions to this policy may only be made by the Chief Operating Officer, Chief Financial Officer or Chief Executive Officer. The purpose of this policy is to avoid any conflicts of interest or the appearance of such conflict of interest. The newly created, centralized Procurement Division facilitates and oversees this process. The Procurement department was staffed in December 2014 and became effective as of February 2, 2015. As part of the Procurement process, Procurement checks to see if potential professional service consultants have been previously employed with NeighborWorks.

## **Objective**

The objective of this review was to obtain reasonable assurance:

- That adequate controls are in place that would evaluate ex-employees becoming external consultants without the appearance of a conflict of interest or an actual conflict of interest.
- That the Corporation is in compliance with the policies and procedures for Ex-employee consultants and
- That these controls are incorporated into the updated policy

## **Scope**

Internal Audit conducted a review to determine if any employees that were terminated between 10/1/2014 and 9/30/2015 were awarded any contracts through the Procurement Department. In the event that a terminated employee was awarded a contract, further review would be performed to ensure compliance with policy.

The scope of the review is limited to contracts that were awarded by Procurement. Contracts can be awarded at the department level up to \$15,000. Any contracts above \$15,000 must go through the Procurement department. Although Procurement was staffed in December 2014, Procurement did not award any contracts until February 2015. For this reason, Internal Audit did not review any contracts that were awarded between 10/1/2014 and 1/31/2015.



## Methodology

Internal Audit began this review with an Introductory Meetings held on 10/30/2015 and 11/3/2015. A questionnaire was developed and distributed to the Vice-President of Procurement. The objective was to obtain an understanding of the workflow controls that are in place for awarding contracts with regard to ex-employees.

We requested, obtained, and reviewed the following items:

- a listing of all employees that were terminated within the last year. This listing was provided to Internal Audit by HR.
- a listing of all RFP's that were awarded by Procurement

The spreadsheet that was obtained from Procurement was a manual log and did not contain certain vendor information that was needed for the audit. This information included the point of contact, address, phone number. To remedy this issue, we created additional fields in the Procurement spreadsheet and manually input the vendor information. We were able to obtain this information from the FY 2015 contract files on the NeighborWorks intranet under the Procurement Business unit. The FY 2015 contract files were listed by RPF number. Each individual file was reviewed in order to locate the vendor information. Each line item on the updated Procurement spreadsheet was cross referenced to the terminated employees listing to ensure that there were no matches with regard to employee names, addresses, and phone numbers.

Below are the observations and recommendations that resulted from the testing performed.

## Observations and Recommendations

### Observation 1 – Lack of ability to provide the population via systemic reporting

Manual controls inherently carry higher risk when compared to automated controls. The population of contracts awarded was obtained from a manual listing in an excel file that is maintained by Procurement. In the absence of systemic reporting, the level of assurance regarding the completeness and accuracy of the population is limited. The manual component of this process increases the risk of human error with regard to data entry.

### Recommendation 1 – Pursue plan to implement systemic reporting for contracts

Ideally, there should be a way to run reports from the ERP system that would return a complete listing of data based on predefined criteria. Additionally, there are change controls within systemic reports that allow for users to identify when parameters were changed and who made the changes. Systemic reports would ensure that the population is complete and accurate by mitigating the risk of human error that is inherent in manual listings. The Corporation is in the process of purchasing a new ERP system that should take into account this requirement, as it conducts a User Requirement phase of the system needs.

## **Conclusion**

We noted no issues with regard to ex-employees being awarded contracts prior to being separated from NeighborWorks for a period of at least 12 months. We also noted that the Procurement policy was in the process of being revised and that there is language in the proposed policy that requires former NeighborWorks employees to have a one year waiting period after separation with NeighborWorks prior to becoming a consultant.