

Internal Audit Department
NeighborWorks® America

Audit Review of Accounts Payable/ACH Transactions

Project Number: FIN.AP.2012

Audit Review of the Accounts Payable/ACH Transactions

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August 30, 2012

To: NeighborWorks America Audit Committee

Subject: Audit Review of the Accounts Payable/ACH Transactions

Please find enclosed the final audit review report of the Accounts Payable/ACH Transactions process. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Director of Internal Audit

Attachment

cc: E. Fitzgerald
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C. Wehrwein
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Function Responsibility and Internal Control Assessment
Audit Review of the Accounts Payable/ACH Transactions

Business Function Responsibility	Report Date	Period Covered
Finance Department	August 30, 2012	October 1, 2011 - June 30, 2012
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations		Generally Effective¹
Reliability of Financial Reporting		Generally Effective
Compliance with Applicable Laws and Regulations		Not Applicable

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

¹ **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>Observation No. 1</p> <p>Duplicate Vendor Records</p> <p>Based on the testing performed, Internal Audit identified two vendors within the [REDACTED] vendor database that were included more than once (e.g., these vendors were assigned more than one vendor ID).</p> <p>Risk Rating: [REDACTED]</p>	<p>Yes</p>	<p>Review Vendor Database for Duplicate Vendors</p> <p>We recommend Finance remove the record of the duplicate vendor ID or ensure that the duplicate record is marked as inactive. In addition, we recommend Finance update its process to include a search of the vendor database for an existing record (of the vendor) before a new vendor is added to [REDACTED]. We also recommend that Finance periodically (e.g., once every 3 years) review the entire vendor database and purge all inactive vendors.</p>	<p>Yes</p>	<p>Management agrees to augment current vendor file maintenance procedures with a purge protocol every three years.</p> <p>Management has already updated the noted duplicate vendor IDs changing their status to inactive.</p> <p>During the [REDACTED] ERP data conversion process, multiple tools were run at different stages to filter out a significant number of duplicate vendor IDs from the old [REDACTED] system; this allowed for a mass purge so that clean Vendor IDs could be transferred with minimal overlap.</p>	<p>March 31, 2013</p>	<p>Internal Audit 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
				Management is working with the Information Management Division and the implementation team to finalize the protocols for system purge protocols and the tools that will be used. Any affected policies will also be appropriately updated.		

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.

Management Response to Audit Review of AP/ACH Transactions		
# Of Responses	Response	Recommendation #
1	Agreement with the recommendation(s)	1
N/A	Disagreement with the recommendation(s)	N/A

Background

NeighborWorks® America utilizes the Accounts Payable module of [REDACTED] that facilitates the check and ACH disbursement process and related accounting. Internal Audit performed a walkthrough of the Accounts Payable process with the Accounts Payable Manager to gain an understanding of the process and how [REDACTED] has been incorporated into the process.

Invoices are sent from the vendor to either the Division or Finance. Invoices received from a vendor by Finance are sent to the respective Division. The Division obtains the proper signatures based on its Delegation of Authority listing, codes the invoice with the proper fund code(s) and general ledger account(s), and submits the approved/coded invoice to Finance for additional processing. The staff accountant reviews the invoice for completeness and compliance with the appropriate policy. The staff accountant prepares a voucher form that includes the account code, name of vendor, vendor ID, invoice number, invoice date, amount, signature/date of preparer and authorizer, etc. If a voucher is greater than \$5,000, then the voucher will also be reviewed by the Controller. After all required signatures/approvals are obtained, the staff accountant enters the Voucher information into [REDACTED]

Checks and ACH payments are processed twice a week. In preparation, a Voucher Edit Report is run and attached to documents (i.e., invoices, expense reports, tasks orders, letter of agreements) supporting the payments to be processed. The Report is reviewed by the AP Manager. The AP Manager runs a check preview list from [REDACTED] and provides it to the CFO for review and authorization. The CFO logs into [REDACTED] to approve the batch.

Checks are kept in a secured location and the keys are kept by individuals not included in the AP process. The CFO retrieves the key, obtains the physical checks, and provides them to the AP Manager to perform the check run. The AP Manager transmits the ACH and Positive Pay file to the bank through its secure site and a follow-up call is made to confirm receipt. The Finance clerk mails checks/ACH remittance advice to the vendors for their payment.

In addition to understanding the use of [REDACTED] to process payments, we also obtained an understanding of how vendors are set up within [REDACTED]. The Staff Accountant is notified when a vendor needs to be added to the [REDACTED] Vendor Database. The following documents are required in order to add a vendor to [REDACTED] – W-9 (Request for Taxpayer ID), Task Order (if applicable), and Letter of Agreement (if applicable). If all required documents have been obtained the staff accountant enters the vendor information (vendor name, vendor ID, address, bank information, etc.) into the Vendor module of [REDACTED]. The staff accountant does not have the ability to approve a vendor; therefore, the AP Manager accesses [REDACTED] to approve the new vendor.

Objective

The audit objective was to obtain assurance on the systems and controls in place that would ensure the validity and integrity of data entry, that payments are properly supported by original invoices and receipts, and approved in accordance with the delegation of authority. In addition, the objective of this review was to ensure adequate controls were in place over the [REDACTED] Vendor database, including segregation of duties and vendor database maintenance.

Scope

The scope of this review included check and ACH disbursement transactions (excluding payroll) from the General Appropriation and National Foreclosure Mitigation Counseling Program (NFMC) funds occurring during the period of October 1, 2011 – June 30, 2012. Grant disbursements were excluded because historically there have not been any control issues with grant disbursements. In addition, grant disbursements are included in the GrantWorks and NFMC Grant Disbursements and Related Accounting reviews.

Methodology

Internal Audit met with the Accounts Payable Manager to perform a walkthrough of the Accounts Payable process (see summary process description above in the Background section).

Internal Audit obtained a listing of check and ACH disbursements (excluding Grant Disbursements) coded to the General Appropriation fund and the NFMC Program fund. The disbursements during the audit period were divided into the following categories:

- < \$10,000
- \$10,000 - \$24,999
- \$25,000 - \$49,999
- \$50,000 - \$99,999
- \$100,000 – \$249,999
- \$250,000 - \$500,000
- >\$500,000

Internal Audit applied a weighted average to each of the categories noted above based on the number of transactions in each respective category and the percentage of the category to the total population. See attached Appendixes (A - General Appropriation) and (B - NFMC Program Fund) for results.

Observations and Recommendations

Observation No. 1: Duplicate Vendor Records

Using ACL, Internal Audit performed a query to identify vendors with more than one vendor ID set up within the ██████████ Vendor database. Based on the testing performed, Internal Audit identified 18 vendors within the ██████████ vendor database with more than one vendor ID. Based on our analysis of disbursements made to the noted vendors, we noted that payments were made to only one of the vendors using both vendor ID accounts. Internal Audit notes the duplicate vendor IDs are the result of the transfer of vendors from the legacy ██████████ vendor database or data entry errors. The issue of duplicate vendor IDs could potentially limit Finance's ability to accurately research vendor payment history.

Recommendation No. 1: Review Vendor Database for Duplicate Vendors

We recommend Finance remove the record of the duplicate vendor ID or ensure that the duplicate record is marked as inactive. In addition, we recommend Finance update its process to include a search of the vendor database for an existing record (of the vendor) before a new vendor is added to ██████████. We also recommend that Finance periodically (e.g., once every 3 years) review the entire vendor database and purge all inactive vendors.

Conclusion

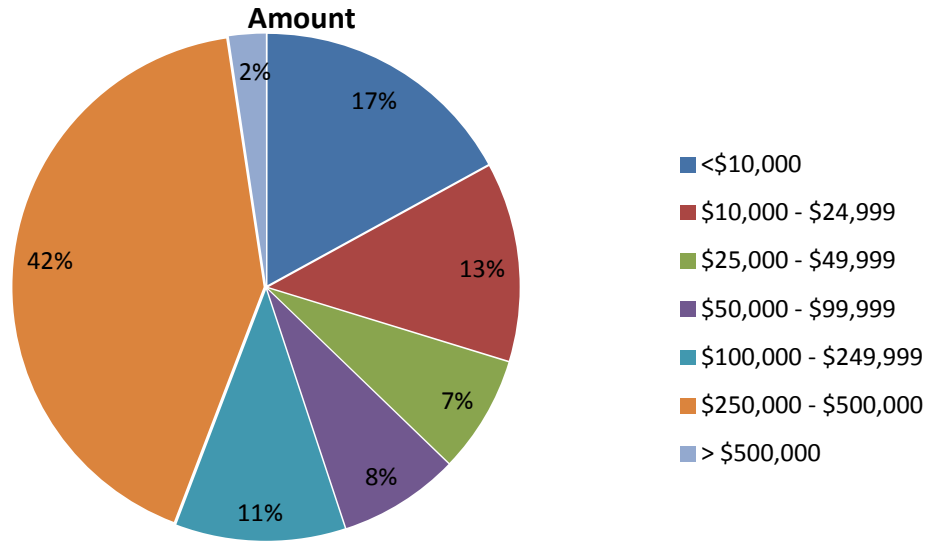
Considering the recent migration to the ██████████ Accounts Payable module, Internal Audit concludes that the Finance Department has adequately designed and implemented controls over the Accounts Payable/ACH transaction process. As the organization moves ahead and becomes more familiar with ██████████ and its capabilities, we recommend Management consider maximizing its functionality to reduce the need for manual controls and the use of paper to carry out the AP process.

Appendix A (General Appropriation)

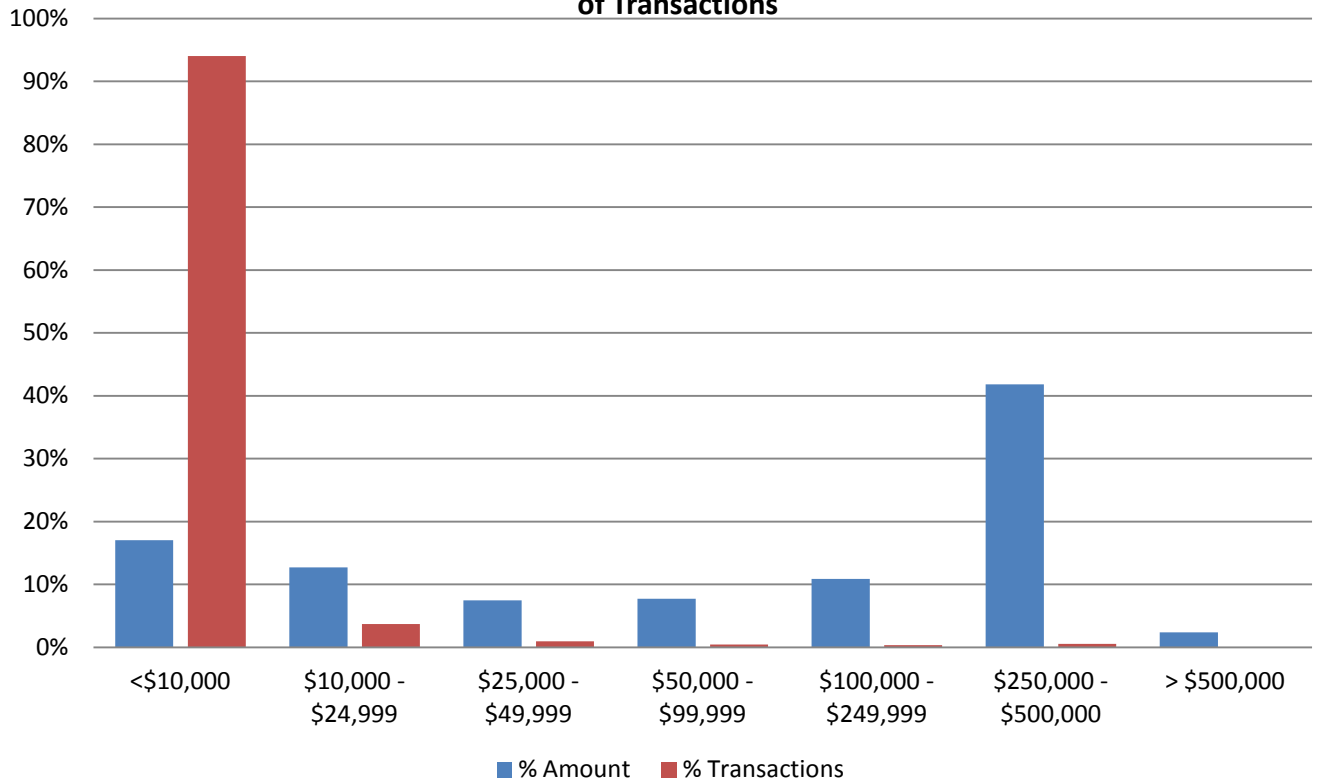
A total of approximately \$21,112,888 was disbursed through 4,952 disbursement transactions during the period beginning October 1, 2011 through June 30, 2012. There were 50 selections made from the General Appropriation fund totaling, \$3,011,220, which represents a 14% coverage of the total. See below charts for details:

Category	Disbursement Amount		Transactions	
	\$	% Amount	#	% Transactions
ACH and Check				
<\$10,000	\$ 3,594,005	17%	4,658	94%
\$10,000 - \$24,999	\$ 2,686,345	13%	182	4%
\$25,000 - \$49,999	\$ 1,576,351	7%	46	1%
\$50,000 - \$99,999	\$ 1,625,076	8%	23	0%
\$100,000 - \$249,999	\$ 2,299,777	11%	16	0%
\$250,000 - \$500,000	\$ 8,830,033	42%	26	1%
> \$500,000	\$ 501,300	2%	1	0%
TOTAL	\$ 21,112,888	100%	4,952	100%

General Appropriation: ACH/Check Disbursements by Total Dollar



General Appropriation: Comparison of ACH/Check Dollar Amounts to Number of Transactions

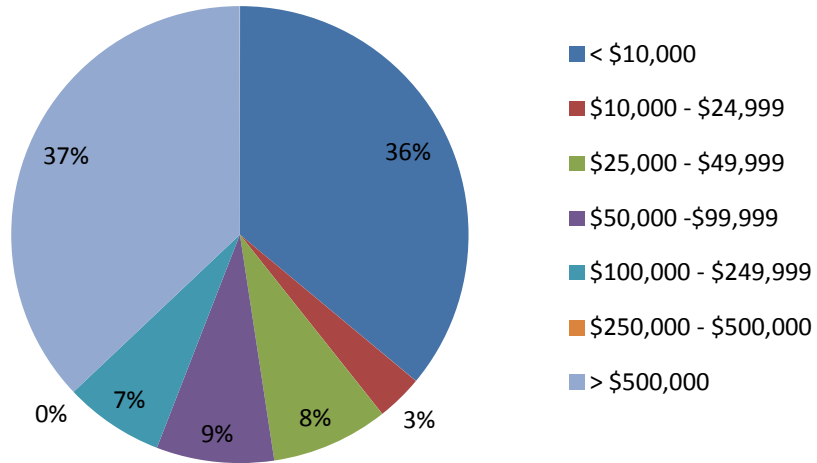


Appendix B (National Foreclosure Mitigation Counseling Program)

A grand total of approximately \$1,622,697 was disbursed through 344 disbursement transactions during the period beginning October 1, 2011 through June 30, 2012. There were 10 selections made from the NFMC Program fund totaling, \$850,161, which represents more than 50% coverage of the total. See below charts for details:

Category	Disbursement Amount		Transactions	
	\$	% Amount	#	% Transactions
ACH and Checks				
< \$10,000	\$ 584,864	36%	333	97%
\$10,000 - \$24,999	\$ 53,078	3%	3	1%
\$25,000 - \$49,999	\$ 134,424	8%	4	1%
\$50,000 - \$99,999	\$ 134,851	8%	2	1%
\$100,000 - \$249,999	\$ 114,368	7%	1	0%
\$250,000 - \$500,000	\$ -	0%	0	0%
> \$500,000	\$ 601,112	37%	1	0%
TOTAL	\$ 1,622,697	100%	344	100%

NFMC: ACH/Check Disbursements by Dollar Value



NFMC: Comparison of ACH/Check Dollar Amounts to Number of Transactions

