

Internal Audit Department  
NeighborWorks® America

# **Audit Review of the Accounts Payable/ACH Transactions**

Project Number: Fin.AP.2011

**Audit Review of the Accounts Payable/ ACH Transactions  
Internal Audit Department Project # Fin.AP.2011**

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October 13, 2011

To: NeighborWorks America Audit Committee


**Subject: Audit Review of the Accounts Payable/ ACH Transactions  
Internal Audit Department Project # Fin.AP.2011**

Please find enclosed the final audit review report of the Corporation's Accounts Payable/ ACH Transactions.

Please contact me with any questions or comments you might have. Thank you.

Frederick Udochi  
Director of Internal Audit

Attachment

cc: (b) (4)  


**Function Responsibility and Internal Control Assessment**  
**Audit Review of the Accounts Payable/ ACH Transactions**

<b>Business Function Responsibility</b>	<b>Report Date</b>	<b>Period Covered</b>
Finance	October 13, 2011	March 2011 – June 2011
<b>Assessment of Internal Control Structure</b>		
Effectiveness and efficiency of operations	<b>Generally effective.<sup>1</sup></b>	
Reliability of financial reporting	<b>Generally effective.</b>	

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<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

### Summary of Observations and Recommendations<sup>2</sup>:

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	Internal Audit Comments on Management Response
<p><b>Observation No. 1</b></p> <p><b>Travel &amp; Expense (T&amp;E) Policies and Procedures</b></p> <p>We observed that some components of the Travel and Expense Policy (using the Federal Per Diem Rates as a reference) have not been updated and current practices around meals and incidentals are not always aligned with documented policies and procedures. In addition, enhancements can be made to the process to review T&amp;E reports to increase efficiency.</p> <p>(b) (4)</p>	Yes	<p>We recommend Management revise the existing travel and expense policy taking into consideration current acceptable practices and Federal Per Diem guidelines. In addition, we recommend Management optimize the full utility of the (b) (4) implementation to validate compliance with the policy and provide management with reports on compliance.</p>	Yes	<p>(A) In FY 2010, alongside developing the requirements for implementing (b) (4) management formally began the process to address the mature daily meal guideline for staff travel. Management recognized there is a need to increase it from \$50 per day to a new amount that reflects the federal per diem benchmarks utilized (varies by market) which will encompass an efficient administrative framework consistent with the set-up of (b) (4)</p> <p>(B) The (b) (4) configuration has functionality that will automatically check for</p>	<p>Management is currently reviewing a redrafted, revised daily meal guideline for staff travel and will take effect immediately upon approval by the Officers.</p> <p>Management will update the Travel Policy once the revised meal guideline is approved.</p> <p>The estimated implementation date will be 3/31/2012.</p>	Internal Audit accepts Management's response.

<sup>2</sup> The observations and recommendations in this section are summarized at a high level for informational purposes. To obtain a full, detailed explanation of each, please refer to the "Observations and Recommendations" section. Management's response is directly related to the detailed observations and recommendations noted in the "Observations and Recommendations" section.

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	Internal Audit Comments on Management Response
				compliance with the meals and incidentals component of the policy.		
<p><b>Observation No. 2</b></p> <p><b>Required Receipts</b></p> <p>Receipts are required for airfare, car rentals, and lodging related expense reimbursements; however, we observed occurrences where credit card statements had been provided in lieu of receipts. The initial intent of accepting credit card statements in lieu of receipts were for instances where it proved difficult to obtain receipts; however, this practice appears to be occurring on a more frequent basis.</p> <p><b>(b) (4)</b></p>	Yes	We acknowledge that Management in the past has distributed communications regarding when receipts are required and when a credit card statement is acceptable in lieu of a receipt; We therefore recommend that Management continue with this practice as well as consistently enforce compliance by requesting for receipts as the primary document of evidence to substantiate travel related expenses.	Yes	<p>Management will update the corporate policy to be clearer about the acceptance of credit card statements and the specific transaction categories that are eligible. The current corporate policy statement (updated August 2007) – Section 703 – already allows that for certain T&amp;E transactions “a copy of a credit card statement is also acceptable in lieu of a receipt.” It will be updated to be clearer.</p> <p>Management will continue with its periodic communications to staff, reinforcing corporate policies, and</p>	<p>Management will update the relevant sections of the Travel Policy.</p> <p>The estimated implementation date will be 3/31/2012.</p>	Internal Audit does not dispute Management's use of IRS guidelines to govern travel and expense policies, specifically when receipts are required. However it is important to note that the up to \$75 threshold amount where receipts may not be required pertains to <b>expenses other than lodging expenses</b> . This means that for whatever amount of a

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				<p>where required, reiterating the need to submit receipts for expense reimbursement.</p> <p>Consistent with IRS guidelines, the corporation recognizes the \$75 threshold for requiring receipts. The context for documentary evidence requires three basic elements to validate the existence of the transaction (substantiation) which are: 1) transaction date, 2) amount of the expense and 3) the payee/name of vendor/context. The credit card statement (particularly the corporate statement under the corporation's US Bank GSA card program) provides all three elements, and since the card is issued directly to the employee in his or her name, such transactions are not easily manipulated. Additionally, internal supervisory approvals on expense</p>		<p>lodging expense, in order for it to be adequate documentary evidence it should show: <b>name and location of hotel, dates stayed; and separately shown amounts for lodging, meals, and telephone calls.</b> The credit card statement in such an instance would not always meet the level of documentary evidence as indicated by the IRS (Publication 463) for this instance. In addition, the Publication states that documentation evidence ordinarily will be considered adequate if it shows <b>the essential</b></p>

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				<p>reimbursements serve as an additional control to validate the legitimacy of business transactions presented for reimbursement. With the increasing nature of e-transactions, acceptance of the credit card statement has evolved and these statements have expanded to provide the necessary transaction details to meet the substantiation requirements. The corporate card program has been established to facilitate easier administration in reporting. Additionally, it is an acceptable business practice to use credit card statements as supporting documentation for validating certain business transactions.</p> <p>Management is also looking forward to taking advantage of the (b) (4) functionality that will allow for an automatic</p>		<p><b>character of the expense</b>, which is not always evident on a credit card statement. Internal Audit also acknowledges that best practices indicate that actual (original) receipts as primary forms of documentary evidence provide the most conclusive evidence to support travel related expenses. We also hope that management would take our final comments into consideration in updating the relevant sections of the travel policy.</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	Internal Audit Comments on Management Response
				download of (b) (4) employee credit card statement information directly into the expense reimbursement module to make it even easier for staff to file expense reports.		

**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 Response to Audit Review Recommendations Accounts Payable/ ACH Process</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
2	Agreement with the recommendation(s)	1,2
	Disagreement with the recommendation(s)	

## **Background**

Beginning March 2011, NeighborWorks® America completed the implementation of the Accounts Payable module of (b) (4), resulting in (b) (4) facilitating the check and ACH disbursement process and related accounting. We met with the Controller and the Accounts Payable Manager to understand the impact the implementation had on the disbursements process and resulting transactions. Based on the discussions held there have not been any significant procedural changes as a result of the implementation.

### **Objective**

The objective of this audit was to obtain assurance that the controls in place over check and ACH disbursements were operating effectively, post implementation of the (b) (4) Accounts Payable Module. We examined documentation to support policies and procedures were adhered to throughout the disbursements process, including ensuring appropriate approvals were obtained and documented, purchase orders/task orders were obtained when required, required supporting documentation accompanied disbursements, disbursements were coded to the proper general ledger accounts, and the appropriate funds were utilized.

### **Scope**

The scope of this review included check and ACH disbursement transactions (excluding payroll) from the General Appropriation and the National Foreclosure Mitigation Counseling Program (NFMC) funds occurring during the period of March 1, 2011 – June 30, 2011. Transactions less than \$500 were excluded from the population of NFMC transactions as these transactions were not material individually or in the aggregate. Additionally, petty cash transactions were excluded due to materiality.

Furthermore due to the implementation of PeopleSoft, Internal Audit is scheduled to conduct a Post Implementation review over the Accounts Payable and General Ledger modules of PeopleSoft under a separate audit.

### **Sampling Methodology**

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

- ≥ \$100,000
- \$50,000 - \$99,999
- \$5,000 - \$4,999
- < \$5,000

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. Utilizing a random number generator (randomizer.org) Internal Audit randomly selected a sample of 151 disbursements totaling \$11,092,662.

## **Observations and Recommendations:**

### **Observation No. 1: Travel & Expense Policies & Procedures**

Components of the T&E Policy have not been updated in several years; therefore, current practices and procedures are not always aligned with or supported by documented policies and procedures. For example, Section 712 of the Policy states meals and incidentals expense reimbursements should total no more than \$50 per day and it may be allocated in any way to meals, tips (such as bellmen, maids and doormen), valet services, and other incidentals. However, when expense reports were reviewed for compliance with the policy only meals (breakfast, lunch and dinner) are included in the calculation and tips and snacks were excluded, resulting in meals and incidental expenses exceeding \$50 per day. The risk associated with having out dated policies is that the policies and procedures may be inconsistently interpreted and applied.

Furthermore, the process to review and recalculate compliance with the meals and incidentals component of the policy is manually performed/calculated by Finance, which could be cumbersome and time consuming. The risk associated with the manual review process is that it is prone to human error and could potentially be inconsistently applied.

Based on discussion with Management and understanding of the Policy, the meals and incidentals allowance of \$50 per day has not been formally modified/adjusted in over 10 years to take into account increases in the consumer price index (CPI). As a result, the \$50 per day limit was to be applied only to meals and it was permissible for employees to be reimbursed for tips and snacks in addition to meals. This was an acceptable practice due to the rising cost of food in various locations where employees travel; however, the Policy had not been updated to reflect the acceptable practice. We acknowledge Management has initiated discussions to review the Meals and Incidentals component of the Policy; however, a final decision has not been made.

### **Recommendation No.1**

As a result we recommend that Management update the Meals and Incidentals section of the T&E Policy. As part of this update we suggest Management review the current Federal Per Diem rates as a reference and establish a limit for meals and incidentals that is aligned with the Federal rates. The revised Policy should specifically include a meals allowance (example: up to \$65 per day) and meals should be defined as breakfast, lunch, dinner and any gratuities paid for those meals (if applicable). The Policy should also include an incidentals allowance (example: up to \$5 per day) and may include tips to bellman, maids, doormen, and/or other minor expenses incurred as a result of travel.

In addition, with the future implementation of the Self Service module of (b) (4), we recommend Management configure this module to automatically calculate compliance with the Policy, by setting maximum limits in the configurations to alert the employee when overages are recorded, and provide Management with periodic reports of individuals not in compliance with the Policy.

### **Observation No. 2: Receipts supporting Airfare, Hotels, and Car Rentals**

Receipts provide reviewers with evidence to support the validity of an expense and support an adequate audit trail. Per review of the Policy, receipts are required for expenses greater than \$75; however, Section 702 of the Policy states receipts are always required for **lodging, air travel, and car rental expenses**. Our review of several expense reports indicated this requirement was not consistently adhered to by employees. Based on our review credit card statements were accepted as supporting documentation for air travel, car rental, and lodging expenses in lieu of a receipt. Even

though credit card statements may provide evidence of a transaction it does not fully provide salient details of a purchase or service such as for air travel – seat type, lodging – room type/cost and car rental – details of car rented and to whom etc. However, a receipt provides a more transparent audit trail and facilitates the ability to quickly identify non business related items within charges. The initial intent of accepting them in lieu of receipts were for instances where it proved difficult to obtain receipts which were not the case in the instances examined. We note that Management has made every effort through frequent communications to encourage staff to attach receipts for lodging, air travel, and car rental expenses.

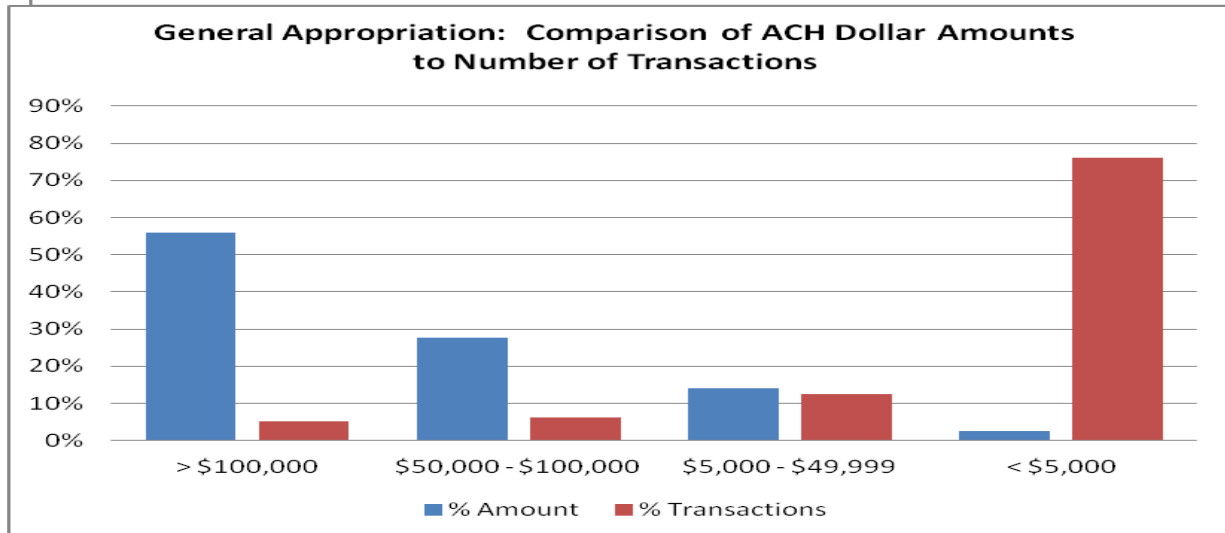
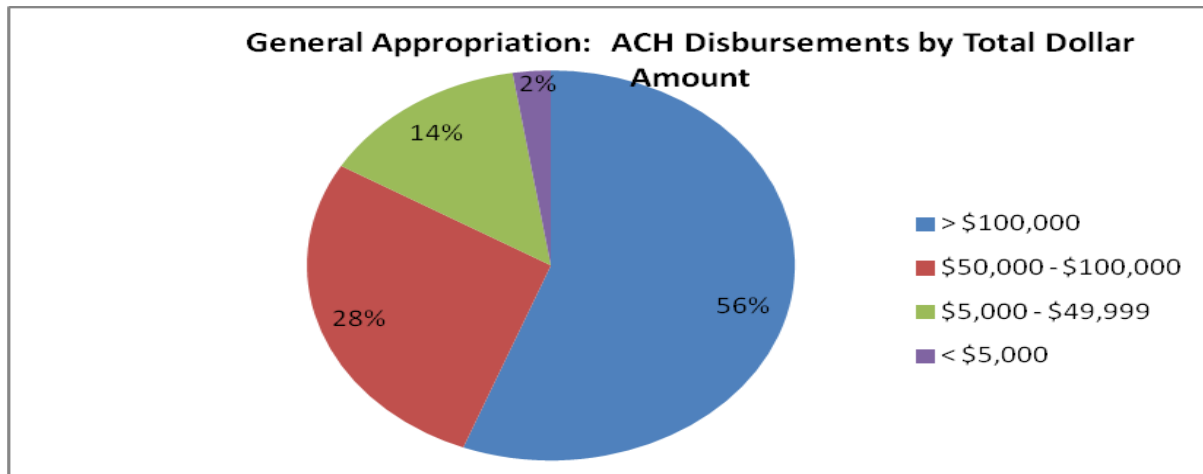
## **Recommendation No.2**

We acknowledge that Management in the past has distributed communications regarding when receipts are required and when a credit card statement is acceptable in lieu of a receipt; We therefore recommend that Management continue with this practice as well as consistently enforce compliance by requesting for receipts as the primary document of evidence to substantiate travel related expenses.

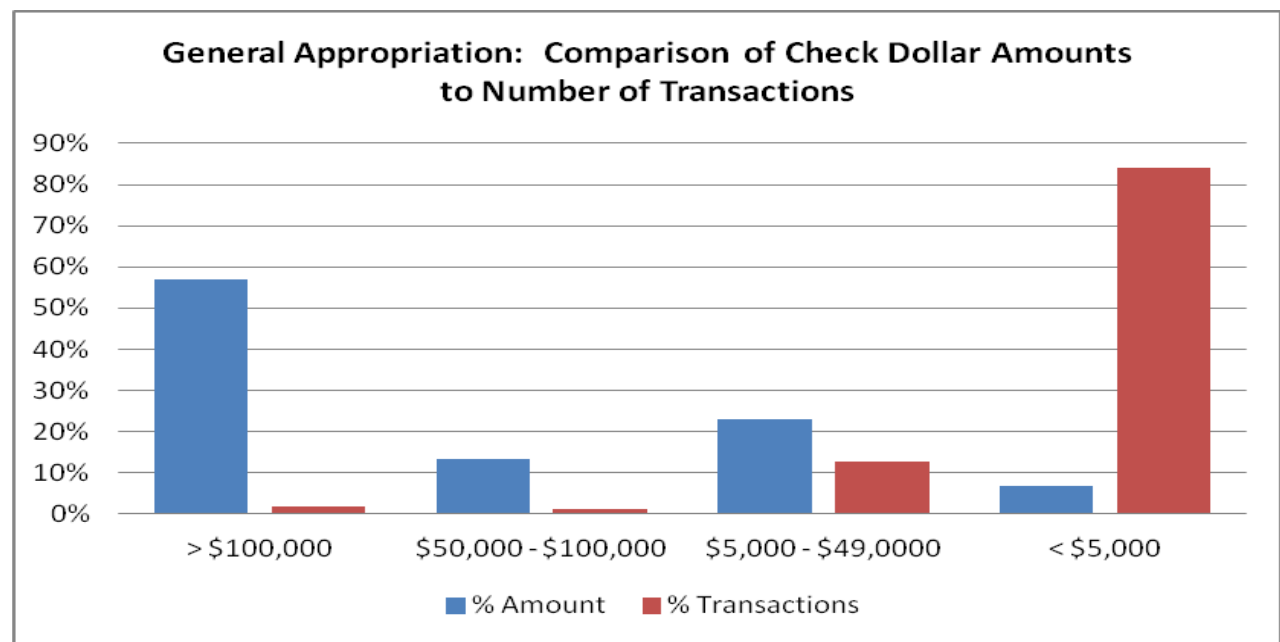
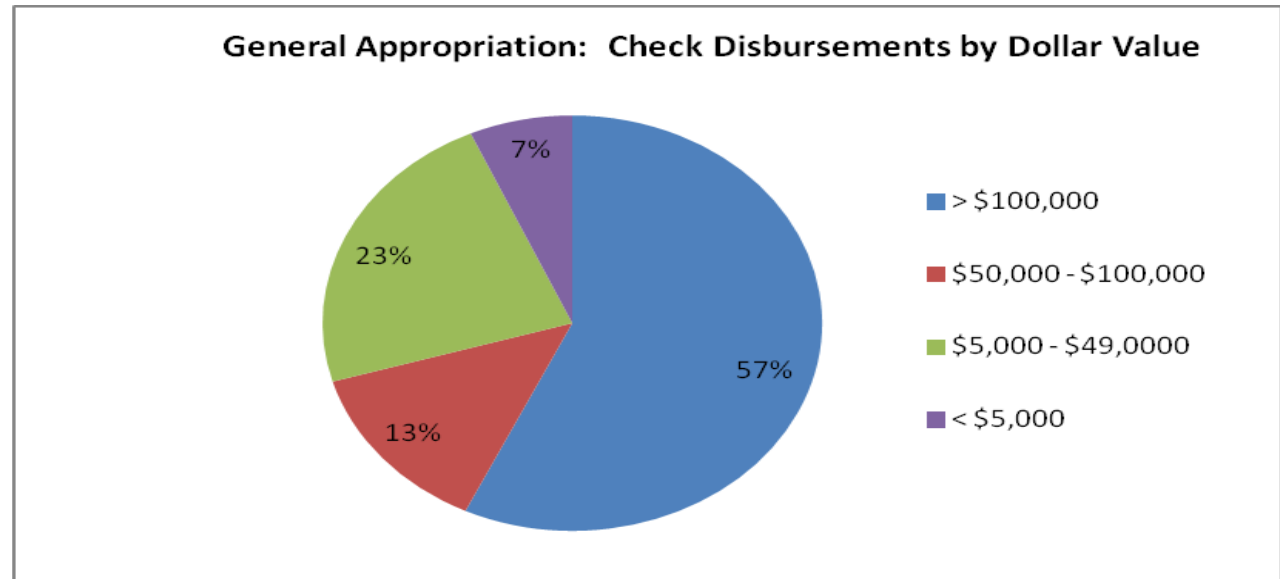
## Appendix A (General Appropriation)

A total of approximately \$45,289,833 was disbursed through 3,570 disbursement transactions during the period beginning March 1, 2011 through June 30, 2011. There were 82 selections made from the General Appropriation fund totaling, \$2,737,320. The following charts provide a detailed breakdown of the total population between ACH and Check disbursements:

Category	Disbursement Amount		Transactions		
	ACH	\$	%	#	%
> \$100,000		\$ 18,866,103	56%	105	5%
\$50,000 - \$100,000		\$ 9,345,430	28%	130	6%
\$5,000 - \$49,999		\$ 4,714,279	14%	259	12%
< \$5,000		\$ 852,323	3%	1,582	76%
<b>TOTAL</b>		<b>\$ 33,778,135</b>	<b>100%</b>	<b>2,076</b>	<b>100%</b>



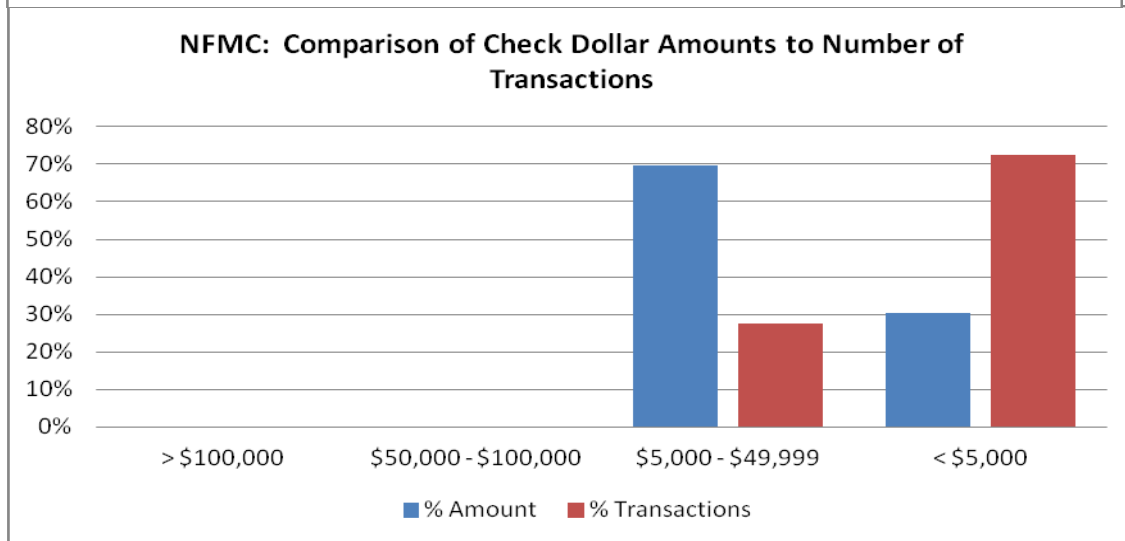
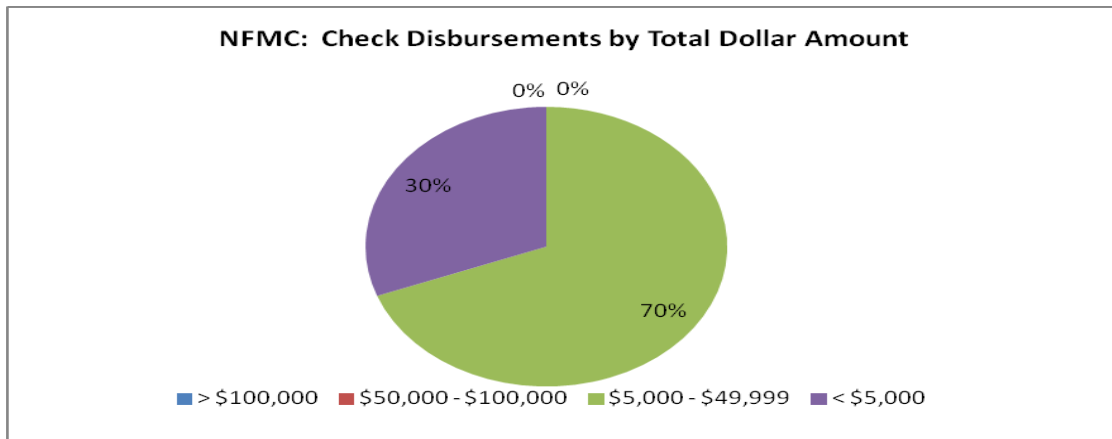
Category	Disbursement Amount		Transactions	
	\$	%	#	%
Checks				
> \$100,000	\$ 6,566,292	57%	28	2%
\$50,000 - \$100,000	\$ 1,544,826	13%	20	1%
\$5,000 - \$49,0000	\$ 2,631,881	23%	191	13%
< \$5,000	\$ 768,700	7%	1,255	84%
<b>TOTAL</b>	<b>\$ 11,511,698</b>	<b>100%</b>	<b>1,494</b>	<b>100%</b>



## Appendix B (National Foreclosure Mitigation Counseling Program)

A grand total of approximately \$10,855,540 was disbursed through 332 disbursement transactions during the period beginning March 1, 2011 through June 30, 2011. There were 69 selections made from the NFMC Program fund totaling, \$8,358,341. The following charts provide a detailed breakdown of the total population between ACH and Check disbursements:

Category	Disbursement Amount		Transactions	
	\$	%	#	%
Checks				
> \$100,000	\$ -	0%	-	0%
\$50,000 - \$100,000	\$ -	0%	-	0%
\$5,000 - \$49,999	\$ 314,115	70%	26	28%
< \$5,000	\$ 139,317	30%	79	72%
<b>TOTAL</b>	<b>\$ 450,691</b>	<b>100%</b>	<b>94</b>	<b>100%</b>



Category	Disbursement Amount	Transactions
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ACH	\$	%	#	%
> \$100,000	7,686,274	74%	15	6%
\$50,000 - \$100,000	1,129,823	11%	16	7%
\$5,000 - \$49,999	1,365,923	13%	95	40%
< \$5,000	227,778	2%	130	47%
<b>Total:</b>	\$ 10,404,849	100%	238	100%

