

Internal Audit Department
NeighborWorks® America

**Audit Review of
Delegation of Authority**

Project Number: NWA.DOA.2015

Audit Review of Delegation of Authority

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April 24, 2015

To: NeighborWorks America Audit Committee

Subject: Audit Review of the Delegation of Authority Policy

Please find enclosed the final audit review report of the Delegation of Authority Policy. Please contact me with any questions you might have. Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: P. Weech
C. Wehrwein
J. Bryson
T. Bloom
S. Slepian

Function Responsibility and Internal Control Assessment
Audit Review of the Delegation of Authority Policy

Business Function Responsibility	Report Date	Period Covered
Office of General Counsel and Finance	April 24, 2015	through February 2015
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations	Generally Effective¹	
Reliability of Financial Reporting	Not Applicable	
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 – Quarterly Reporting of Delegation Uses in Excess of \$(b)(4) to the Board</p> <p>Per the March 4, 2008 Board resolution, Internal Audit notes that Management is required to report to the Board all uses of delegated authority in excess of \$(b)(4) or such other amount (excluding grant awards). Per inquiry with Finance and review of Board meeting materials, Internal Audit notes that the quarterly reports have not been prepared and presented to the Board over the past two years.</p> <p>Risk Rating: (b)(5)</p>		<p>Recommendation No. 1 – Quarterly Reporting of Delegation Uses in Excess of \$(b)(4) to the Board</p> <p>Internal Audit recommends management develop and present a quarterly report that captures the uses of delegation of authority throughout the organization in excess of \$(b)(4) (or other amount as the Board shall approve).</p>	Yes	The requirement of item 20 of the March 4, 2008 Board resolution was brought to Management's attention in early FY2015. The first quarterly report addressing this requirement was prepared for the quarter ended December 31, 2014 and presented to and accepted by the Board on March 30, 2015. The report will be prepared on a quarterly basis going forward.	This requirement is being met.	

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. 2 – Single Purchase Limits and the Delegation of Authority Policy</p> <p>Internal Audit notes that the single purchase limit component of the purchase card policy is not currently aligned with the delegation of authority policy, resulting in individual purchase card holders being assigned a single purchase limit in excess of his/her approved delegated authority. Internal Audit identified (12) instances where the single purchase limit exceeded the individual's delegated authority.</p> <p>Risk Rating: (b) (5)</p>		<p>Recommendation No. 2 – Single Purchase Limits alignment with the approved Delegation of Authority</p> <p>Internal Audit recommends Management ensure each purchase card holder is not assigned a single purchase limit in excess of his/her approved delegated authority (as defined on the individual's approved Redelegation of Authority Memo and the Obligation of Funds Chart). If it is determined that an individual needs a higher single purchase limit then we recommend Management formally request an update to the individual's delegation of authority for purchase cards, place the signed/approved form on file with OGC, and carry forward the update to the Obligation of Funds chart.</p>	Yes	<p>Management agrees that there should be consistency between the Obligation of Funds chart and the single purchase limit of purchase card holders. Stakeholders in addressing this issue include Finance, Procurement, OGC and the business units with individuals who are purchase card holders whose delegation of authority is less than the single purchase limit. Finance will take the lead in coordinating the required documentation.</p>	July 31, 2015	

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. 3 – Uses of Delegation of Authority</p> <p>Internal Audit judgmentally selected a sample of 25 disbursements and reviewed each transaction for the proper use/application of individual delegated authority. Of the 25 disbursements selected, Internal Audit identified two disbursements, where the appropriate level of delegated authority was not obtained prior to disbursement. See details below in the Observations and Recommendations section of the report.</p> <p>Risk Rating: (b) (5)</p>		<p>Recommendation No. 3A Approved Redelegation of Authority</p> <p>Internal Audit recommends Management review the current delegation of authority levels and the increase of grant activity that originates within the respective Division and consider modifying the delegation of authority to permit more flexibility to approve grants (and related disbursements) for programs within the respective Division. However, in the interim Internal Audit recommends Management observe the current delegation of authority until a revised delegation is executed and filed with OGC.</p>	Yes	<p>Recommendation 3A: Management would characterize the observation that gave rise to this recommendation as a “clerical” or “procedural” error in that omission of the Urban Lift Grant program from the “exception to approve” footnote for the newly promoted staff member was an oversight that was in process to be corrected at the time the approval occurred. Management believes that there is no question that the intent for the staff person to have the requisite authority to approve was in place. The authority level for the staff member was subsequently changed and is currently in-line with her responsibility set.</p>	This recommendation has already been implemented	

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>Recommendation No. 3B Clarity to Exceptions to the Delegation of Policy</p> <p>Internal Audit recommends Management further clarify the exceptions for permissible transactions for which an individual's delegation may be exceeded and clearly document the exceptions in the approved Redlegation of Authority memos and the Obligation of Funds Chart. In addition there should not be open ended limits to exceed delegation in the Obligations of Funds chart; however, Management should establish a common interpretation of the scope and extent of delegated authority and it should clearly defined on the chart.</p>	Yes	<p>Recommendation 3B:</p> <p>Management agrees that further clarification regarding the exceptions for permissible transactions may be helpful in avoiding situations where approval authority may be questioned. Management also agrees that the Obligation of Funds memo should detail a cap for such exceptions. Finance will work with OGC to implement the recommendation.</p>	July 31, 2015	

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>Recommendation No. 3C – Automated Workflow to support Delegation of Authority</p> <p>Internal Audit notes that with the increased reliability and usefulness of integrating technology into business transactional processes we recommend Management seek out a technology workflow solution (either with PeopleSoft/Oracle or a compatible software) that would integrate delegation of authority levels in order to better enhance the management and monitoring of the invoice approval/disbursement process</p>	Yes	<p>Recommendation 3C:</p> <p>Management agrees that automated approval workflow within the ERP should be driven by the Obligation of Funds. PeopleSoft has a workflow feature but is complex and costly to implement. Management is considering moving to a SAAS based ERP system and will include this recommendation as one of its requirements should the project get approved.</p>	TBD based on whether Project Fresh Start is approved for FY16.	

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 the Delegation of Authority		
# Of Responses	Response	Recommendation #
5	Agreement with the recommendation(s)	1, 2, 3A, 3B, 3C
0	Disagreement with the recommendation(s)	N/A

Background

The duties and responsibilities of the Board of Directors are outlined in the enabling legislature², the Bylaws, Committee Charters, policies, budget, and/or special authorities established by resolution of the Board. The Board delegated the authority to implement policies to executive management (Chief Executive Officer), the details of which are outlined in the March 2008, Delegation of Authority Policy Board resolution. This policy was designed to provide clear authority and responsibilities to executive management as they carry out their administrative and operational responsibilities. See the March 2008 Delegation of Authority Policy at Appendix A.

Executive management has developed an internal delegation of authority process to further delegate the authority of the Chief Executive Officer (CEO) to employees throughout the organization. Delegation is authorized using a memorandum template with the subject Redelegation of Obligation and Disbursement Authority. The memo is initiated by an employee's supervisor, addressed to the General Counsel, and signed by the employee, his/her supervisor, and the CEO. See an example Redelegation of Obligation and Disbursement Authority at Appendix B. The final executed memo is provided to and retained by the Office of General Counsel (OGC), the record keeper of all official delegation of authority documents and provided to Finance for reference when disbursing funds. OGC also maintains the Obligation of Funds Chart, which summarizes the obligation and disbursement authority of all employees by Division. The Obligation of Funds Chart is updated as needed for changes in delegation and provided to Finance.

Objective

The objective of this review was to obtain:

- An understanding of policies and procedures in place to administer, change, and monitor delegation of authority.
- Assurance that the process to administer or change delegation of authority limits is aligned with the delegation of authority policy.
- Assurance that adequate controls are designed and implemented to monitor delegation of authority limits.

Scope

The scope of this audit included the following:

- Delegation of Authority Policies, Procedures, and Processes
- Board Delegation of Authority
- Current Delegation of Authority Limits
- Documentation supporting the administration of delegation of authority

² The Neighborhood Reinvestment Corporation Act – 42 USC § 8101.

Methodology

Internal Audit began this review with an Introductory Meeting, which was held November 7, 2014. In order to obtain a better understanding of the delegation of authority processes throughout the organization, Internal Audit developed and distributed a planning questionnaire to the Office of General Counsel and Finance. Internal Audit also reviewed the March 2008, Delegation of Authority Policy Board resolution.

The testing performed included a review of documentation to support the administration of the delegation of authority policy/process by the Office of General Counsel, including a review and validation of the Obligation of Funds Chart. Internal Audit also validated the uses of delegated authority via disbursements made during FY 2014. Internal Audit judgmentally selected a sample of 25 disbursements to validate that the individual(s) authorizing the disbursement had adequate delegation of authority. See the observations and recommendations below resulting from the testing performed.

Observations and Recommendations

Observation No. 1 – Quarterly Reporting of Delegation Uses in Excess of \$(b) (4) to the Board

Per the March 4, 2008 Board resolution, Internal Audit notes that Management is required to report to the Board all uses of delegated authority in excess of \$ (b) (4) or such other amount (excluding grant awards), see additional details in Appendix A. Per inquiry with Finance and review of Board meeting materials, Internal Audit notes that the quarterly reports have not been prepared and presented to the Board over the past two years. This is likely attributable to the management transitions and turnover experienced in the last two years.

Recommendation No. 1 – Quarterly Reporting of Delegation Uses in Excess of \$(b) (4) to the Board

Internal Audit recommends management develop and present a quarterly report that captures the uses of delegation of authority throughout the organization in excess of \$ (b) (4) (or other amount as the Board shall approve).

Observation No. 2 – Single Purchase Limits and the Delegation of Authority Policy

Based on our understanding of the Delegation of Authority Policy and individual delegations, Internal Audit notes that the single purchase limit component of the purchase card policy is not currently aligned with the delegation of authority policy. For example, the single purchase limit for all purchase card holders is at least \$(b) (4)³, which may not always be aligned with an individual's approved delegation of authority. Based on our review of the single purchase limits available to card holders as of January 2015, Internal Audit noted twelve (12) instances where the single purchase limit (in respect of purchase card holders) exceeded the individual's delegated authority as specified in the Obligations of Funds Chart. Providing purchase card limits to account holders without referring to the Obligation of Funds Chart or the approved Redelegation of Obligation and Disbursement Authority form on file (with OGC) could readily lead to this misalignment.

³ NOTE - The single purchase limit may also be different than \$(b) (4) to accommodate requests to temporarily increase the limit for specific transactions.

Recommendation No. 2 – Single Purchase Limits alignment with the approved Delegation of Authority

Internal Audit recommends Management ensure each purchase card holder is not assigned a single purchase limit in excess of his/her approved delegated authority (as defined on the individual's approved Redelegating of Authority Memo and the Obligation of Funds Chart). If it is determined that an individual needs a higher single purchase limit then we recommend Management⁴ formally request an update to the individual's delegation of authority for purchase cards, place the signed/approved form on file with OGC, and carry forward the update to the Obligation of Funds chart.

Observation No. 3 – Uses of Delegation of Authority

Internal Audit judgmentally selected a sample of 25 disbursements and reviewed each transaction for the proper use/application of individual delegated authority. Of the 25 disbursements selected, Internal Audit identified two disbursements, where the appropriate level of delegated authority was not obtained prior to disbursement. In both cases Internal Audit was able to determine that these omissions were not indicative of a non-compliance issue but an administrative lapse in the former and lack of a concise articulation of the delegated authority scope in the latter. See details below:

- A. A subsequent disbursement for the Urban Lift program in the amount of \$ (b) (4) by the responsible SVP, did not receive the appropriate level of approval from the COO. Internal Audit notes that the initial grant award was properly approved; however, the disbursements related to the award is dependent upon specific deliverables being met/satisfied. , Internal Audit is of the opinion that the delegation of authority process is applicable and should be observed independent of the grant approval process. A memo provided by Management to Internal Audit indicated that a request had been made from the respective SVP for an upward revision of their delegation of authority⁵. This had been signed by the prior CEO; however, due to personnel transitions in 2014 the signed delegation was not provided to OGC for filing and an update was not reflected in the Obligation of Funds chart.
- B. An invoice for the build out / renovation of the new Boston Office in the amount of \$ (b) (4) was approved by the authorizing Officer with a limit just under \$ (b) (4) . Internal Audit recognizes that this observation resulted due to management's interpretation of the footnotes included on the obligation of funds chart⁶ and Management's belief that Board approval of the Boston office build out encompassed an exception to the delegation of authority policy to complete the project.

Recommendation No. 3A - Approved Redelegating of Authority

Internal Audit recognizes the grant making process has expanded over the years and various Divisions are now engaged in the grant making and disbursement process. Therefore, Internal Audit recommends Management review the current delegation of authority levels and the

⁴ Effective May 1, 2015 Procurement will take over the responsibility and oversight of the Purchase Card activity.

⁵ The SVP noted in the memo that in assuming the new role/title a revised delegation of authority was completed and signed in January 2014; however, it did not include the authority to exceed approval limits for all grant programs under the respective Division.

⁶ The Obligation of Funds Chart includes exceptions to the Delegation of Authority in the footnotes. Exceptions typically included relate to the approval and disbursements of Grants, VISA (purchase/travel), payroll, rental payments, NTI hotel bills, benefits, and purchase orders.

increase of grant activity that originates within the respective Division and consider modifying the delegation of authority limits to permit more flexibility to approve grants (and related disbursements) for programs within the respective Division. However, in the interim Internal Audit recommends Management observe the current delegation of authority until a new/revised delegation is executed and filed with OGC.

Recommendation No. 3B – Clarity to Exceptions to the Policy

Internal Audit recommends Management further clarify the exceptions for permissible transactions for which an individual's delegation may be exceeded and clearly document the exceptions in the individual approved Redelegating of Authority memos and the Obligation of Funds chart. In addition there should not be open ended limits to exceed delegation in the Obligations of Funds chart; however, Management should establish a common interpretation of the scope and extent of delegated authority and it should clearly be defined on the chart.

Recommendation No. 3C – Automated Workflow to Support Delegation of Authority

Internal Audit notes that with the increased reliability and usefulness of integrating technology into business transactional processes we recommend Management seek out a technology workflow solution (either with PeopleSoft/Oracle or a compatible software) that would integrate delegation of authority levels in order to better enhance the management and monitoring of the invoice approval/disbursement process.

Conclusion

Internal Audit notes that the Delegation of Authority Policy establishes a framework to manage employee's ability to obligate the organization. The results of the review indicate that Management has worked diligently to design and implement processes to ensure that the delegation of authority policy is sufficient for the organization. Internal Audit notes that the implementation of the recommendations as noted above will further enhance the effectiveness of the policy and process. Thanks again to the Office of General Counsel, Chief Financial Officer and their teams for their cooperation during this review.

APPENDIX A: Delegation of Authority Policy (March 2008 Board Resolution)

**NEIGHBORWORKS® AMERICA
RESOLUTION
OF THE
BOARD OF DIRECTORS
DELEGATION OF AUTHORITY POLICY
March 4, 2008**

WHEREAS, the purpose of the Delegation of Authority Policy is to provide clear delineation of responsibilities of the NeighborWorks® America Board of Directors and executive management. The primary functions of the NeighborWorks® America Board of Directors are to formulate, revise, implement and conduct ongoing oversight of the policies it has established for NeighborWorks® America. The duties and responsibilities of the Board are enumerated in the enabling legislation at 42 USC § 8101 *et seq.*, the Bylaws, Committee Charters, and in policies, budget and general or special authorities established by resolution of the Board. The Board has delegated the authority to implement policies to executive management, through the Chief Executive Officer, who is responsible for the day-to-day management of the Corporation.

NOW THEREFORE BE IT RESOLVED, that consistent with the enabling legislation, the Bylaws, Committee Charters, and Board policies, budgets, and general or special authorities established by resolution of the Board, that the Chief Executive Officer be, and hereby is authorized, for the Corporation and in its name to:

- (1) Manage the day-to-day affairs of the Corporation as its Chief Executive Officer;
- (2) Implement the Corporation's strategic planning process and establish new programs, consistent with the mission, in consultation with the Board of Directors;
- (3) Lead the Corporation's fundraising/sponsorship activities in accordance with established Board and Corporation policies;
- (4) Approve and execute applications and/or renewal forms related to charitable solicitation as required in States where the Corporation registers to raise funds under charitable solicitation statutes;
- (5) Establish and, from time to time, amend organization charts of the Corporation and administrative practices and procedures for its efficient and effective operation, including corporate reorganizations, in consultation with the Corporate Administration Committee;

- (6) Arrange, through purchase, lease, grant, or otherwise for furniture and equipment, up to \$ (b) (4), excluding all office leases which must be approved by the Board of Directors;
- (7) Negotiate and execute all hotel and meeting room contracts up to \$ (b) (4);
- (8) Select, employ, fix the compensation and benefits of, and remove, employees, except officers and the internal audit director of the Corporation, who are appointed by the Board of Directors;
- (9) Select and contract with consultants and professional services contractors, up to \$ (b) (4);
- (10) Negotiate and execute contracts and other agreements committing the Corporation to the receipt or disposition of assets, or to the acquisition, holding, or disposition of any personal property of the Corporation, up to \$ (b) (4);
- (11) Approve and execute all grants up to \$ (b) (4) consistent with the corporate mission, and provide a report on all grants awarded to the Finance, Budget and Program Committee;
- (12) Offer, negotiate, execute, and deliver agreements providing grants and technical assistance from the Corporation to NeighborWorks® network members and other nonprofit corporations engaged in affordable housing or community development activities, and local governments;
- (13) Establish, from time to time, amend, and enforce the terms and conditions under which agreements are made;
- (14) Complain for or defend the Corporation, or otherwise represent its interests, in any judicial or legislative proceedings that may affect its purposes or operations;
- (15) Upon formal or informal request or invitation, appear before, meet, confer or consult regarding the Corporation, with Members, committees, or subcommittees of Congress and their professional staffs; but no part of the Corporation's activities shall be used to contribute to or otherwise support any candidate for elective public office;
- (16) Testify and provide reports to OMB and Congress as required;
- (17) Settle, adjust, and compromise any claim, demand; right of, by or against, the Corporation; exercise such other authority as may be necessary and proper to carry out the authorities granted in this Resolution;

(18) Notwithstanding the foregoing delegations, the Board hereby reserves to itself consideration of matters which would establish or change existing Corporation policy, could attract unusual attention or publicity, or would involve an issue of first impression;

(19) Delegate any or all of the foregoing authorities to other officers or employees of the Corporation, provided that each such delegation or redelegation is: (a) in writing; (b) signed by the Chief Executive Officer; and (c) filed with the Secretary of the Corporation;

(20) All uses of delegated authority in excess of \$ (b) (4) or such other amount as the Board shall approve from time to time, will be incorporated in quarterly reports to the Board, with the exception of the award of all grants, which will be reported to the Finance, Budget and Program Committee, in accordance with Section 11 of this Policy.

This delegation of authority hereby replaces and supersedes any previous delegation of authority in effect, except for the Resolution authorizing the CEO to proceed with the design, development and implementation of the Foreclosure Mitigation Counseling Program as outlined and funded in the Corporation's fiscal year 2008 appropriation, approved by the Board of Directors on January 10, 2008. Notwithstanding the foregoing, the Board reserves the right to amend the Delegation of Authority Policy as circumstances warrant.

Approved by the Board of Directors, this the 4th day of March 2008.

Appendix B: Example Redlegation of Obligation and Disbursement Authority

Memorandum

To: Jeffrey T. Bryson, EVP & General Counsel/Secretary
From: Paula King, SVP, Human Resources (b) (6)
Date: October 22, 2014
Subject: Redlegation of Obligation and Disbursement Authority

I hereby make the following re delegation of authority to (b) (6) **Manager, Human Resources**; to approve disbursements up to \$ (b) (4) to duly obligate funds budgeted for **Human Resources** activities, including the purchase of office supplies, subscriptions, publications, registrations, memberships and other miscellaneous charges, in accordance with the Corporation's policies and procedures.

PROVIDED THAT: No authority is delegated for the execution of professional contracts of any kind to obligate the Corporation to pay for consultant services or contracts of employment of any current or former employee of Neighborhood Reinvestment, or a relative of a current or former employee, with the exception of former employees who have been separated from the Corporation for at least twelve months; and

PROVIDED FURTHER: Every exercise of delegated authority shall be strictly in accordance with the Corporation's internal control procedures.

REDELEGATION APPROVED:

(b) (6)

Charles Wehrwein Date
Acting President & CEO 10-28-14

REDELEGATION ACCEPTED

(b) (6)
By: _____ 10/27/14
(b) (6) Date
Manager, Human Resources

cc: Finance