

Internal Audit Department
NeighborWorks® America

Audit Review of
MHA Vendor Outsourcing

Project Number: MHA.Outsourcing.2014

Audit Review of MHA Vendor Outsourcing

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February 25, 2015

To: NeighborWorks America Audit Committee

Subject: Audit Review of the MHA Vendor Outsourcing

Please find enclosed the final audit review report of the MHA Vendor Outsourcing. Please contact me with any questions you might have. Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: P. Weech
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Function Responsibility and Internal Control Assessment
Audit Review of MHA Vendor Outsourcing

Business Function Responsibility	Report Date	Period Covered
National Initiative – Foreclosure Mitigation – Making Home Affordable	February 25, 2015	April 2013 – December 2014
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations	Generally Effective¹	
Reliability of Financial Reporting	Generally Effective	
Compliance with Applicable Laws and Regulations	Generally Effective	

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 - A Competitive Request for Proposal (RFP) process was not followed</p> <p>Based on the testing performed, Internal Audit identified one instance where Management (in this instance Information Management) did not follow a competitive Request for Proposal (RFP) process. See the detailed observation below.</p> <p>Risk Rating : (b) (5)</p>	<p>Yes</p>	<p>Recommendation No. 1 - Implementation of Competitive Request for Proposal (RFP) Process</p> <p>Internal Audit acknowledges that Management is currently undertaking a process to centralize the procurement function, define/enhance related policies and procedures, and streamline processes. Internal Audit recommends and re-emphasizes the need to establish adequate processes and controls that would provide assurance of compliance on vendor selection in a competitive Request for Proposal (RFP) process when the cost of a potential project is expected to be \$20,000 or more.</p>	<p>Yes</p>	<p>There was a formal development agreement reached w/ this vendor when NeighborWorks America purchased CounselorMax. Although the vendor had a current Letter of Agreement with NeighborWorks at the time of the Task Order issuance, the development agreement had expired. Management acknowledges that the appropriate action would have been to prepare a sole source memo justifying the selection.</p> <p>Management has since implemented the proposed recommendations from internal audit to centralize the procurement function and implement new policies and procedures that provide necessary procurement controls.</p> <p>The decision to enter into the sole-source engagement was justified at the time for these reasons:</p> <ol style="list-style-type: none"> 1. The timeline was too short to run a full RFP (Requirements were known in April 2013 and 	<p>Complete</p>	<p>Internal Audit is assured of the fact that Management has made extensive efforts to centralize the Procurement function which would facilitate consistency in future RFP documentation and internal control systems.</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
				<p>the system had to be fully-functional in June 2013). Going through a competitive bidding process would have delayed development by at least two months, making it highly unlikely that the project would have been delivered on time.</p> <p>2. EMTA developed the original CounselorMax code. The new development was an extension of that original development and code base. It made sense, given the short timeline and EMTA's familiarity with the technology and code, to use them for the new development.</p> <p>3. Hiring a different vendor would have likely cost NeighborWorks considerably more money as the new vendor would have had to first learn the existing functionality and code base before it could execute the requirements.</p> <p>4. A new vendor would have added risk to the project as we would not know that they could deliver on the required functionality. EMTA was a</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
				known entity that delivered similar functionality previously in a timely and effective manner.		

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 MHA Vendor Outsourcing		
# Of Responses	Response	Recommendation #
1	Agreement with the recommendation(s)	1
0	Disagreement with the recommendation(s)	N/A

Background

On February 14, 2013, NeighborWorks entered into a Memorandum of Agreement (MOA) with the U.S. Department of the Treasury (“Treasury”) to execute the Making Home Affordable Outreach and Intake Project² (MHA Project). The overall purpose of the project was to have counseling agencies perform outreach to borrowers regarding the assistance available under Making Home Affordable (MHA), screen borrowers for potential MHA eligibility, and submit MHA applications to servicers for evaluation on behalf of potentially eligible borrowers. The project was budgeted at up to \$18.3 million and grant funds provided to counseling agencies and State Housing Finance Agencies under MHA Outreach and Intake Project were designated for three activities: (1) Document Preparation and Submission, (2) Outreach, and (3) Oversight.

NeighborWorks role involved:

- Collaborating with Treasury in a series of borrower outreach events;
- Training counselors on MHA program requirements;
- Contracting on the development of an online application system for counselors’ use in submitting applications to servicers;
- Making funding allocations and providing payments to Participating Agencies;
- Overseeing outreach activities and monitoring counselors’ submissions of borrowers’ MHA applications to servicers and;
- Performing quality control and compliance monitoring.

Objective

The objectives of this audit project were to:

- Obtain an understanding of applicable policies and procedures for the procurement of professional services for the MHA Program;
- Assess whether MHA procurement activities are executed in accordance with applicable policies and procedures; and
- Ensure that MHA related procurement activities and related controls are valid, properly authorized, and adequately controlled.

Scope

The scope of this audit covered the following areas:

- Policies and procedures manual (authority, responsibility, job descriptions, solicitation, selection and management of vendors, competitive bid policy and reporting in procurement etc.);
- Professional services charged to the MHA program to date;

² This is in support the Making Home Affordable (MHA) Program, which is administered by Treasury.

- Contractor/supplier relations (contract clauses, bidding/tender activities undertaken, request and review of quotations, negotiations, invoice processing etc.);
- Purchasing ethics (confidential Information, code of professional conduct, conflicts of interest, gifts and gratuities etc.);
- MHA Program delegation of authority for the procurement of professional services; and
- Compliance with applicable regulatory requirements (OMB Circulars A-110 and A-122).

Methodology

An introductory meeting with NeighborWorks' MHA Outsourcing Project Management Teams was held on December 1, 2014.

To answer the audit objective, the audit team interviewed various members of Management and staff responsible for selecting and working with vendors providing services for the MHA project. The audit team reviewed and assessed the following documents provided by the Management team - letter of agreements (including modifications), task orders, invoices and other documents. We also reviewed applicable laws and regulations including OMB Circulars A-110, A-122, and NeighborWorks America policies and procedures in relation to professional service contracts. Through the interviews conducted and review of documentation received, the audit team obtained an understanding of the relevant controls, applicable policies and procedures for the procurement of professional services for the MHA Project. Using the information gathered, Internal Audit designed an audit program to assist with the planning and performance of the auditing procedures.

Internal Audit judgmentally selected five vendors on a sample basis and reviewed the related procurement records including RFPs, proposals received, and selection criteria. The review focused on obtaining assurance on NeighborWorks' compliance with the letter of agreements, task orders, applicable policies and procedures and ensuring that MHA related procurement activities were valid, properly authorized, and adequately controlled.

To determine the adequacy of the internal controls, the audit team examined on a test basis evidence including invoices, vouchers, and other supporting documents. The results and overall conclusions related to these tests were limited to the items tested and believe our substantive testing was sufficient to support the audit observation.

Observations and Recommendations

Observation No. 1 - A competitive Request for Proposal (RFP) process was not followed

Per section 903 of the Administrative Manual (Professional Service Contracts), a competitive Request for Proposal (RFP) is required when a specific task is expected to be \$20,000 or more in total. Per review of the selected vendors and related sampled task orders provided, Internal Audit noted one task order had been issued for services above \$20,000 without following the required competitive Request for Proposal (RFP) process. Internal Audit noted that this noncompliance originated from the Information Management Division and not from the MHA Project Team.

See the vendor and total spend below:

Vendor	Dept.	June2013	Sample Task Order Reviewed
EMTA Applications Inc.	280	\$37,590.00	2013-280-088

Recommendation No. 1 – Management Implementation of Competitive Request for Proposal (RFP) Process

Internal Audit acknowledges the fact that this noncompliance occurred when the corporation operated a decentralized procurement function and is aware of current Management efforts to centralize the procurement function and further define and enhance related policies and procedures. Internal Audit recommends and re-emphasizes the need to establish adequate processes and controls that would provide assurance of compliance on vendor selection in a competitive Request for Proposal (RFP) process when the cost of a potential project is expected to be \$20,000 or more.

Conclusion

Based on the audit performed, Internal Audit concludes that there was sufficient assurance of compliance on the procurement process managed by the MHA Project Team. As noted above the current centralization of the procurement process should result in more efficiencies to related procurement activities and controls. We would like to thank the MHA Project Team for their assistance during this review.