



To: Ken Wade, Jeff Bryson, Eileen Fitzgerald and Michael Forster

From: Frederick Udochi

cc: Zewdneh Shiferaw

Date: May 14, 2009

Subject: Review of Accounts Payable/ ACH Wire Transfers Process

Enclosed is a copy of the recently concluded review of the Corporation's Accounts Payable/ ACH Wire Transfers process. Please review and let me know if you have any comments or questions. Thanks.

Executive Summary

Audit Review of Accounts Payable/ ACH Wire Transfers Process

Business Function and Responsibility

Report Date

Period Covered:

Finance

April 21, 2009

October 1, 2008 through
January 31, 2009

Assessment of Internal Control Structure

Effectiveness and efficiency operations

Generally effective.¹
Recommendations in specific areas are noted below.

Reliability of Reporting

Generally effective.
Recommendations in specific areas are noted below.

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.

Audit Review of Accounts Payable/ ACH Wire Transfers Process

Objective

This review focused on disbursements made under: 1) the annual congressional appropriation (source 6); and 2) the National Foreclosure Mitigation Counseling Program (NFMC) appropriations (sources 8 and 1).

The objective of this audit was to obtain assurance on the systems and controls in place that would ensure the validity and integrity of data entry; and that payments are properly supported by original invoices and approved in accordance with authority limits. An additional objective, as related to the NFMC-related disbursements, focused on ensuring that non-grant expenditures were executed in accordance with budgets and respective contracts.

Scope

The scope of the source 6 review focused on the processing of expenditures, employee and Officers time and expense reimbursements; with the exception of payroll and grants, for expenditures incurred **October 1, 2008 – January 31, 2009**. It did not include an evaluation of the activities prior to final approval of purchase orders, task orders, or service agreements. Similarly, petty cash transactions were also excluded from the review because they were not considered material during the audit period.

Methods

To begin, a series of meetings were held with the Accounts Payable team of the Finance Department. As part of obtaining an understanding of the various integrated processes, details involving invoice processing, check storage, check printing and voided checks were discussed to determine any recent or undocumented changes to the current process of internal controls or functions performed by the team. This was supplemented by a review of documented procedures supporting the disbursement processes to also understand the design of controls.

To provide proper context to an understanding of the business process, transaction patterns were reviewed on historical information for the four month period being tested. The disbursements during the audit period were divided into four categories:

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



The Internal Audit team randomly selected samples from each of these categories for a total of 150 samples totaling \$5,860,936. Each of the sample sizes were then subjected to a review and verification process based on the audit procedures. Lastly, documentation supporting the payment method (check or ACH) were also reviewed.

Summary of Observations and Recommendations²:

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation <i>(Received on 9/18/09)</i>	Estimated Date of Implementation	Internal Audit Comments on Management Response
<p>CORE Disbursements: 1. It was observed that the financial system (Navision) does not currently have the capability to run ACH registers for a specific source code.</p> <p>RISK RATING: [REDACTED]</p>	<p>Yes</p>	<p>We strongly recommend that the ability to produce specific source code reports should be rated as a priority requirement in any specifications considered in the selection of a future financial system.</p>	<p>Yes</p>	<p>Management accepted IA recommendation and included it as part of the new financial tool requirements</p>	<p>This recommendation will be implemented in the 3rd quarter of FY2010.</p>	<p>IA accepts Management's response.</p>

² 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	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation <i>(Received on 9/18/09)</i>	Estimated Date of Implementation	Internal Audit Comments on Management Response
<p>2. It was observed that there are some slight wording difference related to relocation benefits for senior level managers in the Administrative Manual versus relocation expense reimbursement memos.</p> <p>RISK RATING: ██████████</p>	Yes	It is recommended that the policy in the Administrative Manual should be updated to reflect the correct interpretation of the Corporation's relocation assistance to senior managers, and that the wording used in subsequent authorization memos should be identical to the policy in order to ensure consistency and accuracy.	Yes	Management accepted IA recommendation and management will update the section according to the recommendation.	The section will be updated before or by September 30th	IA accepts Management's response.
<p>3. It was observed that the Finance department's accounting manual was last updated in 2003.</p> <p>RISK RATING: ██████████</p>	Yes	It is recommended that a thorough review of the accounting manual be conducted and that a revised version is issued to Finance staff.	Yes	At the time IA conducted the internal audit Finance has been in the process of updating the accounting manual.	Currently the updated accounting manual is available	IA accepts Management's response.

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation <i>(Received on 9/18/09)</i>	Estimated Date of Implementation	Internal Audit Comments on Management Response
<p>4. It was observed that Money Time does not currently require employees to indicate the purpose of business trips on their Time and Expense (T&E) forms.</p> <p>RISK RATING: </p>	Yes	It is recommended that as the Corporation is considering the implementation of a new financial management system, the T&E module should include a "purpose of trip" section for travel performed.	Yes	Management accepted IA recommendation and considered to include the purpose of the trip on the next Time and Expenses application.	Management plans to implement the new system the 3 rd quarter of FY 2010,	IA accepts Management's response.
<p><u>NFMC:</u></p> <p>5. It was observed that many of the NFMC disbursements which were recorded as Source 1 (NFMC Round 2) were actually related to Source 8 (NFMC Round 1) activities and services.</p> <p>RISK RATING: </p>	Yes	We recommend that the planned reclassification project is performed sooner rather than later, and that operational staff are provided criteria by Finance to ensure accurate coding.	Yes	Management also discussed this issue with IA staff at the exit conference and both groups agreed to reclass all disbursements according to the recommendation in September 2009 before Finance closes the book.	Finance will prepare the reclass journal entries in September before we close the book for FY2009 and capture all activities/expenses under the right source code.	IA accepts Management's response.

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 Recommendations Accounts Payable/ ACH Process		
# Of Responses	Response	Recommendation #
5	Agreement with the recommendation(s)	#'s 1, 2, 3, 4, 5
0	Disagreement with the recommendation(s)	N/A

Observations and Recommendations for Disbursements made from the Annual Appropriation Funds (Source 6)³:

1. It was observed that the financial system [REDACTED] does not currently have the capability to run ACH registers for a specific source code. For example, the Internal Audit team requested separate ACH registers for sources 6 and 8, respectively, which [REDACTED] was unable to produce. While determining sample selections, it cost the Internal Audit team a considerable amount of time to determine which samples should be selected, in efforts to have a good representation of NFMC-related disbursements (sources 1 and 8), as well as the annual appropriation-related disbursements (source 6). This system capability may not have been necessary in the past because disbursements were from one identifiable source, but since the implementation of the NFMC program, the need for this reporting feature becomes critical. The absence of the system's ability to report disbursements by source may also create challenges for external auditors, when performing their sample-based testing, and for Management, when processing and monitoring accounts payable reports for specific disbursement streams.

Recommendation: [REDACTED]⁴ does not have enhanced reporting capabilities, which has also been a systemic problem in the past. During our FY'07 review of Accounts Payable, we recommended that a system upgrade be considered by the Corporation, and we would like to re-emphasize that recommendation in this FY'09 report as well. We understand that the Finance department has embarked on an applications systems review and strongly recommend that the ability to produce specific source code reports should be rated as a priority requirement in any specifications considered in the selection of any financial system.

2. It was observed that there are some slight wording difference related to relocation benefits for senior level managers in the Administrative Manual versus relocation expense reimbursement memos that were submitted to Finance requesting reimbursement on behalf of a Senior Manager. The wording in the Administrative Manual, Section 216 currently reads, "*The maximum reimbursement levels are 10 percent of the sale price for the old residence and 10 percent of the purchase price for the new residence.*"

The wording in one of the memos read, "*per policy 216, (the manager) is eligible for reimbursement expenses up to 10% of the sale price of (the) old residence and 10% of the purchase price for the new residence up to a total maximum of \$50,000.*"

Based on our discussion with Finance, the amount reimbursed is 10% of the sale price of the old residence, plus 10% of the purchase price of the new residence, up to a maximum of \$50,000. This is the standard reimbursement calculation for the

³ This is the core budget of the Corporation and excludes the NFMC Program funds.

⁴ [REDACTED] is the Financial accounting application currently used by the Corporation.

Corporation as interpreted by Finance and applies even if actual expenses are less than the calculated amount.

We are of the opinion that there is ambiguity in the way the current wording in the Administrative manual is interpreted as expressed in the subsequent memo authorizing payment.

Recommendation: We recommend that management review the current wording of the policy in the Administrative Manual in order to provide a clear and consistent interpretation that reflects the Corporation's relocation assistance to senior Managers. Any wording used in memos authorizing future payments should be consistent and identical to what obtains in the Administrative Manual.

3. It was observed that the Finance department's accounting manual was last updated in 2003, but it is currently in the process of being revised. The accounting manual was issued to Finance staff to provide proper guidance on the interpretation of financial transactions and their consistent posting to the ledgers.

Recommendation: Although much of the manual is still applicable for routine processing, it is recommended that a thorough review of the accounting manual is conducted and that a revised version issued to Finance staff. Management should also consider updating the departmental manual on a more periodic basis with a suggested period of every 2 years.

4. It was observed that Money Time does not currently require employees to indicate the purpose of business trips on their Time and Expense (T&E) forms. Although the to/from fields are mandatory components in Money Time, it does not mandate that a purpose is provided.

Recommendation: As the Corporation considers the implementation of a new financial management system, we recommend that the T&E module should include a "purpose of trip" section for travel performed. This is important due to the high frequency of staff travels. It is also useful to have this information, as it documents the business purpose for third party reviewers.

Observations and Recommendations for Disbursements made from NFMC Appropriation Funds (Sources 1 and 8):

5. It was observed that many of the NFMC disbursements which were recorded as Source 1 (NFMC Round 2) were actually related to Source 8 (NFMC Round 1) activities and services. (See *Appendix C.*) For example, approximately 87% of the number of disbursement transactions reported under Source 1 should be recorded to Source 8. 20% of the number of disbursement transactions reported under Source 8 should be recorded to Source 1. After discussion with the Accounts Payable Manager and Controller, we noted that the Finance department plans to conduct a large reclassification project at the end of the fiscal year to

ensure correct source codes were recorded in the general ledger for all NFMC disbursements.

Recommendation: We recommend that this reclassification project is performed sooner rather than later. The magnitude of this project could be potentially time consuming if deferred until the end of the fiscal year. Furthermore, we recommend that Finance provide operations staff with some criteria that would enable them to distinguish what qualifies as a Source 8 versus Source 1 coded payable. Subsequently, all task orders and vouchers should refer to the appropriate source code before posting.

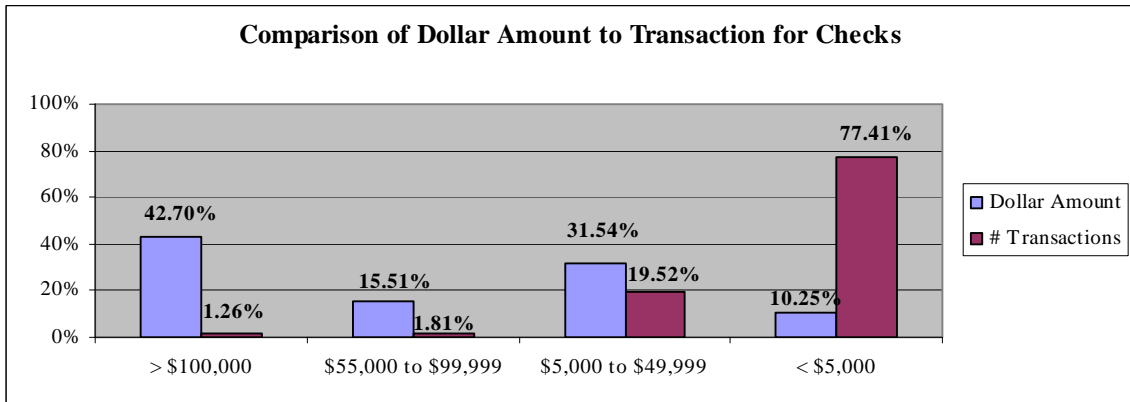
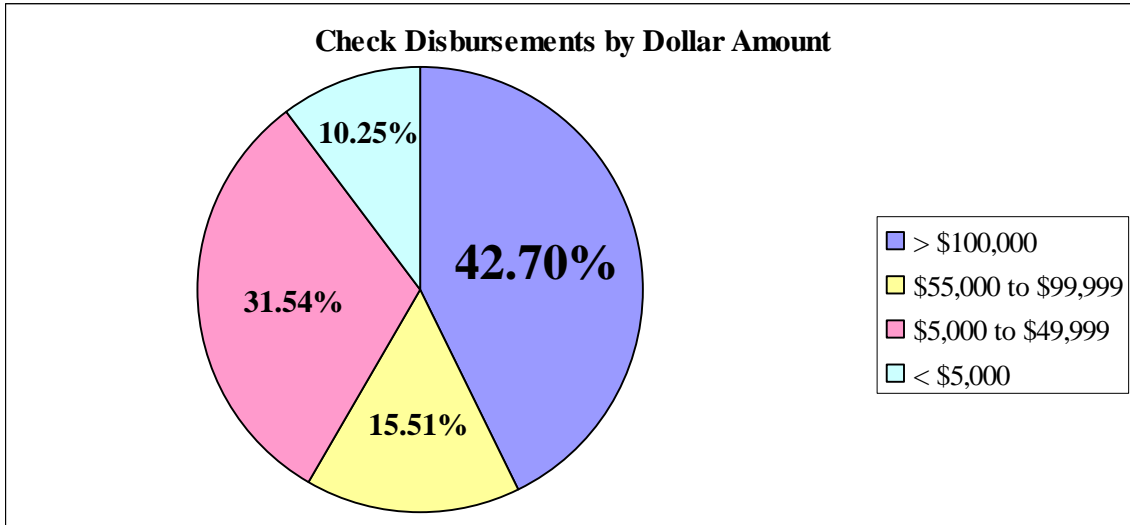
Conclusion

The Accounts Payable process is managed by highly skilled and conscientious staff. We would like to extend special thanks to the Finance staff for supporting our work during this review.

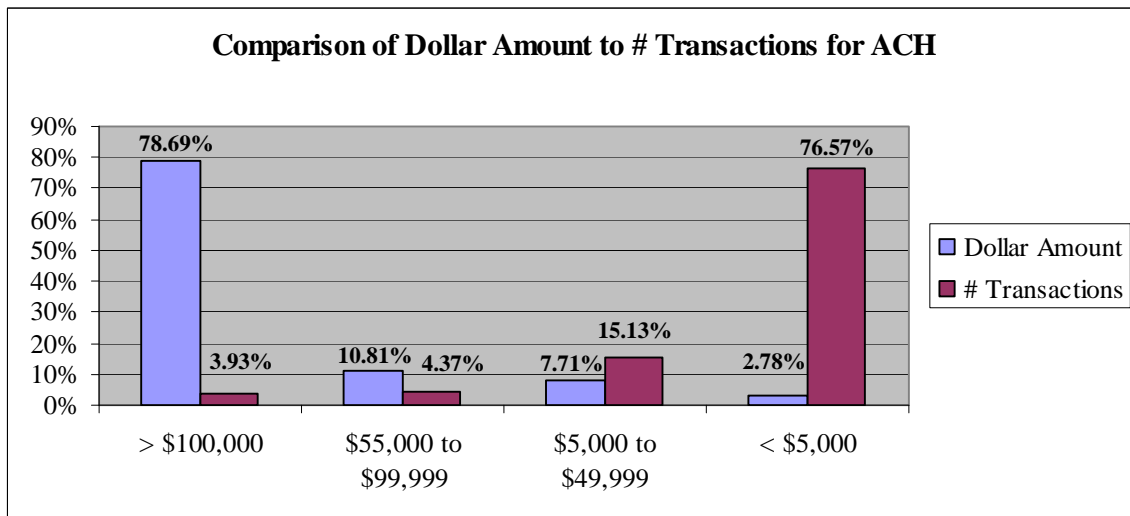
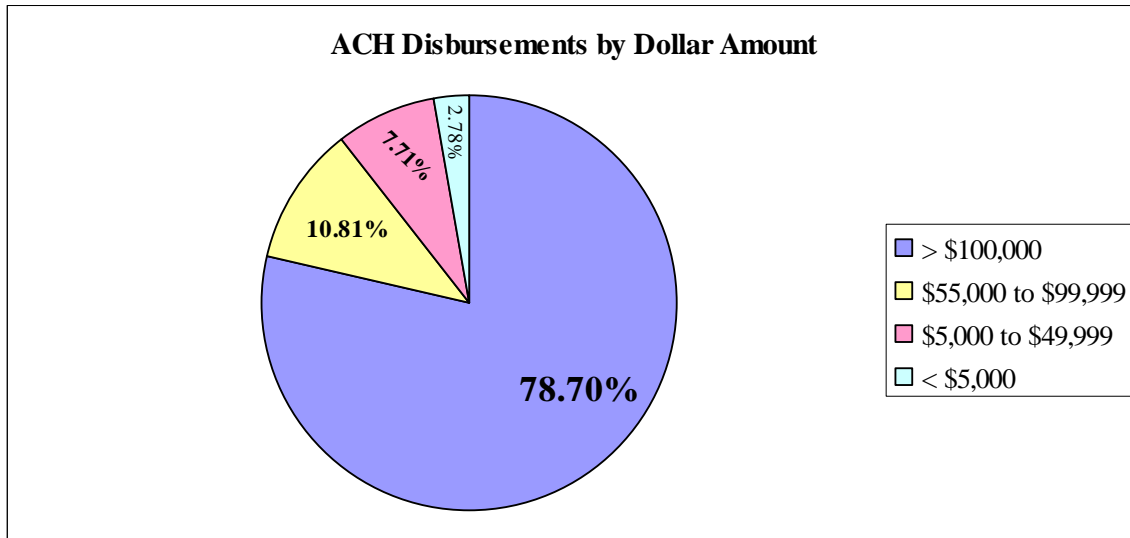
Appendix A

A grand total of approximately \$70.6 million was disbursed through 3,931 disbursement transactions during the period beginning October 1, 2008 through January 31, 2009. The 151 selections made represented a total disbursed amount of \$5,860,936. The following charts provide a detailed breakdown of the total population between checks and ACH:

Category:	Disbursement Amount		Transactions	
Checks	\$	%	#	%
> \$100,000	\$ 7,564,643.04	42.70%	27	1.26%
\$55,000 to \$99,999	\$ 2,748,064.71	15.51%	39	1.81%
\$5,000 to \$49,999	\$ 5,586,902.53	31.54%	419	19.52%
< \$5,000	\$ 1,814,938.31	10.25%	1,662	77.41%
TOTAL	\$17,714,548.59	100.00%	2,147	100.00%



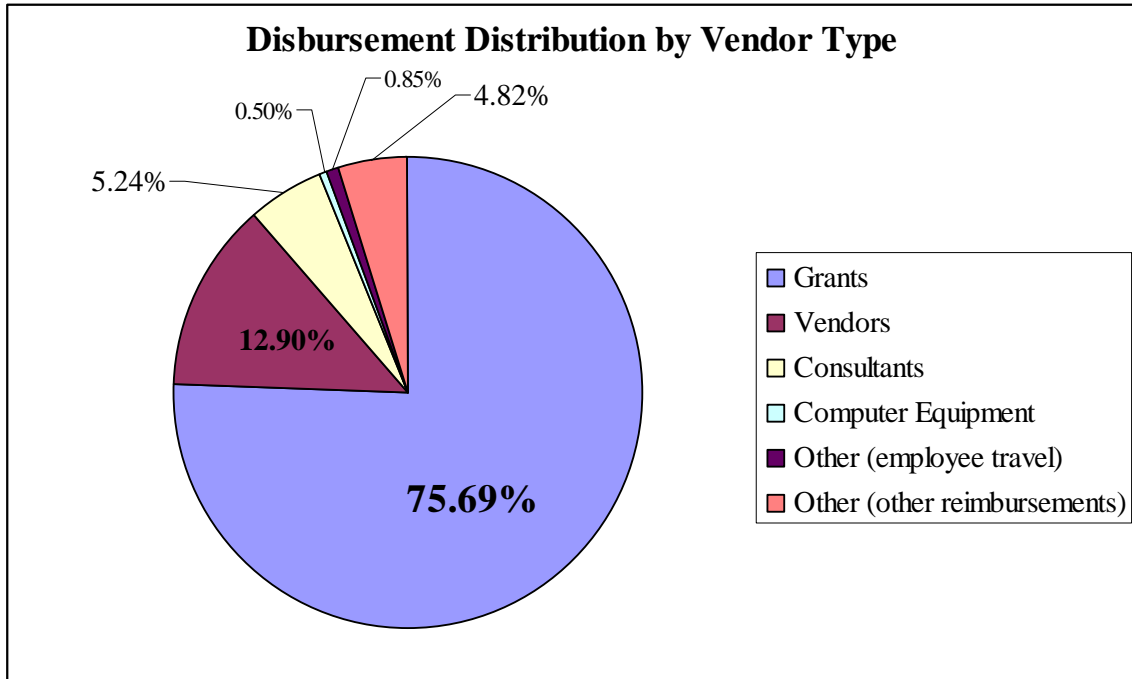
Category:	Disbursement Amount		Transactions	
	\$	%	#	%
> \$100,000	\$ 41,634,566.33	78.70%	70	3.93%
\$55,000 to \$99,999	\$ 5,720,210.45	10.81%	78	4.37%
\$5,000 to \$49,999	\$ 4,080,267.69	7.71%	270	15.13%
< \$5,000	\$ 1,471,571.13	2.78%	1,366	76.57%
TOTAL	\$ 52,906,615.60	100.00%	1,784	100.00%



APPENDIX B Disbursement Distribution by Vendor Code

Vendor Type	Disbursement	
	Amount *	% of total
Grants	\$ 53.4	75.69%
Vendors	9.1	12.90%
Consultants	3.7	5.24%
Computer Equipment	0.4	0.50%
Other (employee travel)	0.6	0.85%
Other (other reimbursements)	3.4	4.82%
	\$ 70.6	100.00%

* rounded to nearest million



APPENDIX C

NFMC: SOURCE REPORTED VS. ACTUAL SOURCE RECORDED Based on Number of Transactions

Total Sampled Transactions Reported for Source 1	# Sampled Transactions Incorrectly Recorded (Actually Belongs to Source 8)	% Sampled Transactions Incorrectly Recorded (Actually Belongs to Source 8)
23	20	87%

Total Sampled Transactions Reported for Source 8	# Sampled Transactions Incorrectly Recorded (Actually Belongs to Source 1)	% Sampled Transactions Incorrectly Recorded (Actually Belongs to Source 1)
5	1 *	20%

* This transaction is related to a grant. Grants were not part of the scope for this review, however we are noting the misclassification in order to emphasize the recommendation that the reclassification project be performed prior to the fiscal year end. An earlier review on NFMC program grants had been conducted earlier in the fiscal year. See Audit Report on Grant Disbursements & Related Accounting submitted to the Audit Committee meeting materials held April 27, 2009.