

**INTERNAL COMPLIANCE REVIEW  
HARDEST HIT FUND**

**4<sup>TH</sup> QUARTER OF FISCAL YEAR 2016  
(APRIL 1, 2016 – JUNE 30, 2016)**



DR

**HARDEST HIT FUND  
INTERNAL COMPLIANCE REVIEW  
4<sup>TH</sup> QUARTER OF FY 2016**

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To the Board of Directors and Management  
Nevada Affordable Housing Assistance Corporation (NAHAC)

We have performed the procedures enumerated in Section V, "Scope of Services", to this report for activity that occurred in the fourth quarter (Q4) of fiscal year (FY) 2016. We were engaged by NAHAC management and the Board of Directors, solely to assist with respect to completing section 4.B of your "Commitment to purchase financial instrument and HFA participation agreement" with the U.S. Department of the Treasury (UST), related to the Internal Compliance and Control Program, as outlined in the Hardest Hit Fund (HHF) Risk and Control Matrix framework.

The Management of NAHAC is responsible for its financial reporting and internal control systems. The sufficiency of the procedures performed is solely the responsibility of the Board of Directors and Management of NAHAC. Consequently, we make no representation regarding the sufficiency of the procedures described in Section V to this report for the purpose for which this report has been requested or for any other purpose.

The findings, recommendations, and observations pertaining to Q4 FY 2016 are described in Section III of this report, with prior findings and observations, including the current status on those findings and observations, are described in Section IV of this report.

NAHAC's legal counsel is responsible for the monitoring of general compliance to applicable rules and regulation.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the internal control systems management has in place. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Management, the Board of Directors, external auditors and the UST. This report is not intended to be and should not be used by anyone other than these specified parties.

*Ellsworth & Stout, LLC*

Las Vegas, Nevada  
August 21, 2017

## EXECUTIVE SUMMARY

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We are pleased to provide our report on the internal compliance review procedures performed by Ellsworth & Stout, LLC (E&S). These procedures were performed for NAHAC for Q4 FY2016, which covers the period of April 1, 2016 through June 30, 2016. The overall objective of this engagement is to assist the Board of Directors in fulfilling NAHAC's internal compliance and control program requirement per the HHF Risk and Control Matrix (RACM).

Due to significant delays in the previous quarter report being issued and NAHAC switching the firm performing the internal compliance review, E&S was unable to begin procedures on Q4 FY2016 until June 2017.

The internal compliance review procedures are included in Section V.

### FINDINGS AND OBSERVATIONS

Based upon the results of our procedures, certain matters came to our attention and are discussed in more detail in Section III, "Findings, Recommendations, and Observations", of this report. A "finding" is defined as a matter having a direct internal control impact. Observations are opportunities to enhance efficiencies of operations and may be considered best practices within the industry. Unless otherwise noted, no unreported findings were identified related to the procedures performed.

Section IV, "Prior Findings and Observations", of this report includes the tracking and status updates for findings from previous quarters.

The following Summary of Findings includes new findings from our Q4 FY2016 testing only.

#	SUMMARY OF NEW FINDINGS	RISK RATING
<b>Eligibility / Underwriting</b>		
1	Checklists have not been updated to match Term Sheets and Guidelines.	High
<b>HHF Funds, Property and Other Assets</b>		
1	A lien was not released in a timely manner.	Moderate
<b>Reporting</b>		
1	An annual budget was not prepared.	Low
2	The Bring-Down Certificate was submitted late.	Low
3	Financial reports were not presented timely to the board.	Moderate
4	A complete Annual Calendar" was not implemented.	High
5	Past tax returns have not been posted on NAHAC's website.	Low
<b>Program Expenses</b>		
1	The cash disbursement policy does not address program related disbursements.	Low
<b>Administrative Expenses</b>		
1	HHF funds were used for unallowable expenses in accordance with OMB A-87.	Critical
<b>Fraud and Conflicts of Interest</b>		
1	Annual conflict of interest statements had not been obtained.	Low
<b>IT Environment and Data Security</b>		
1	Data was not validated when systems changed.	Low

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## **EXECUTIVE SUMMARY - Continued**

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### **RISK RATINGS**

The risk ratings applied to findings in this report are based on our experiences performing similar procedures at other organizations. These ratings are intended to assist management with prioritizing the importance of taking action on the findings identified. We believe all findings, regardless of the risk rating assigned, if not addressed, could lead to significant issues. We recommend management track the resolution of findings identified, and any follow-up actions should be reported to the Board of Directors.

The definitions of these ratings appear in the next section of this report. In accordance with this rating system, we have assigned the following ratings for each of the HHF RACM areas. These ratings are based solely on our Q4 FY2016 testing and do not account for unresolved findings from prior quarters. The unresolved findings from previous quarters are summarized in Section IV.

#### **Risk Assessment Area**

#### **Q4 Risk Rating**

General	Exceptional
Eligibility and Underwriting	Needs Improvement
HHF Funds, Property, and Other Assets	Satisfactory
Reporting	Needs Improvement
Program Expenses	Satisfactory
Administrative Expenses	Unsatisfactory
Fraud and Conflicts of Interest	Satisfactory
IT Environment and Data Security	Satisfactory

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## DEFINITION OF RATINGS

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### RATINGS OF RISK AND CONTROL MATRIX AREAS

The following ratings of HHF RACM areas are based solely on the procedures performed and relate only to the items tested. Had we performed additional procedures, other matters might have come to our attention that could have changed an internal compliance area's rating.

- **Exceptional** – No control improvements or other recommendations were identified.
- **Satisfactory** – No critical or high internal control deficiencies or other issues identified, but certain control improvements and other recommendations were identified that should be implemented as resources permit within a reasonable time.
- **Needs Improvement** – No critical internal control deficiencies identified. One or more than one high-rated deficiency or other issues were identified. The findings require management's prompt corrective action.
- **Unsatisfactory** – One or more than one critical internal control deficiency or other issue and/or more than three high-rated deficiencies or other issues were identified. The findings warrant immediate attention by management for corrective action to allow the internal control systems to function effectively.

### RATINGS OF INTERNAL AUDIT FINDINGS

- **Critical** – Indicates a significant matter requiring immediate attention and involvement by the Board of Directors and senior management.
- **High** – Indicates a significant matter requiring immediate attention by senior management and possibly the Board of Directors.
- **Moderate** – Indicates a matter to be given priority by management and, if not immediately addressed, may significantly impair the control structure or operating effectiveness of the internal control systems.
- **Low** – Indicates a matter to be addressed in the normal course of business, which may be of sufficient importance to be brought to management's and the Board of Director's attention.

## FINDINGS, RECOMMENDATIONS, AND OBSERVATIONS

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### General

No findings identified in the current period.

### Eligibility / Underwriting

#### **Finding #1: Checklists are not updated to match Term Sheets and Guidelines.**

##### **Risk Rating: High**

**Observation:** E&S noted that the term sheet for the Principal Reduction program shows a maximum per household of \$50,000; however, the checklist and underwriting guidelines show a \$100,000 maximum.

We also noted that certain criteria were unclear or inaccurate between the requirements from the term sheets and the checklists being utilized in the underwriting process.

**Recommendation:** We recommend NAHAC review the terms sheets and update the maximum per household threshold accordingly in the QC Checklists. We recommend that the checklists be updated as follows:

- Specify whether a client is a legal US resident and a Nevada Resident per guidelines, rather than simply stating that the client has indicated a residency.
- Specify whether a home is owner occupied, rather than simply stating that the client has made an indication of whether or not the home was owner occupied.
- Specify the financial hardship (as required), whether based on a specific hardship such as underemployment; medical conditions; divorce; death; etc., or based on negative equity.
- Specify the timeframe for clients to provide all documentation on the checklist to ensure that filings were done in a timely manner.
- The post-assistance housing expenses for the Principal Reduction Program (PRP) (B1) require that post-assistance housing expenses must exceed 25% of gross household income, excluding temporary income in accordance with the term sheet. We recommend that this be added to the PRP checklist.

**Management Response:** NAHAC will review the QC Checklists and recommendations and make the necessary changes to ensure we are in compliance.

### HHF Funds, Property and Other Assets

#### **Finding #1: Lien not released in a timely manner.**

##### **Risk Rating: Low**

**Observation:** For 1 out of 30 re-conveyances tested, E&S noted one lien should have been released in June 2016; however, it had not yet been released.

**Recommendation:** We recommend that NAHAC develop a control procedure to ensure that all liens are released in a timely manner.

**Management Response:** NAHAC prepared the lien release on August 15, 2017 and the release was recorded on August 16, 2017. NAHAC will review and modify the procedure related to the monthly review of lien maturities to ensure that the error is not repeated.

## Reporting

### **Finding #1: NAHAC did not prepare an annual budget.**

**Risk Rating: Low**

**Observation:** NAHAC has not prepared an annual budget.

**Recommendation:** We recommend NAHAC prepare an annual budget, during the fourth quarter of the fiscal year for the following fiscal year, and obtain approval from the Board of Directors per policy.

**Management Response:** NAHAC has added the preparation of the annual budget to its annual reporting calendar to ensure that this is completed going forward, and in a timely manner. An annual budget was prepared and utilized for most of fiscal year 2017.

### **Finding #2: NAHAC submitted the Bring-Down Certificate one day late.**

**Risk Rating: Low**

**Observation:** NAHAC submitted the Bring-Down Certificate to the UST on June 24, 2016, which was one day late.

**Recommendation:** We recommend NAHAC add the deadline to the Annual Calendar and set up reminders to those who are responsible for preparing and submitting the certificate.

**Management Response:** NAHAC has added the preparation of the annual budget to its annual reporting calendar to ensure that this is completed going forward, and in a timely manner.

### **Finding #3: Financials were not presented timely to the board (within 30 days).**

**Risk Rating: Moderate**

**Observation:** NAHAC submitted April 2016 financials in June and May and June 2016 financials in August.

**Recommendation:** We recommend NAHAC present the financials to the board timely.

**Management Response:** NAHAC is in the process of establishing a formal monthly close checklist to be signed off each month to ensure that financial reports are available to be presented to the board in a timely manner.



**Finding #4: A complete “Annual Calendar” was not in effect during the period.**

**Risk Rating: High**

**Observation:** NAHAC had started an Annual Calendar with some of their deadlines; however, not all deadlines were listed and the calendar was not being monitored.

**Recommendation:** We recommend NAHAC implement an annual calendar to ensure all deadlines are met to stay in compliance with rules, regulations and contracts.

**Management Response:** NAHAC expects to implement full use of the annual calendar beginning in October 2017, upon catching up with outstanding compliance reviews.

**Finding #5: Form 990’s are not posted on NAHAC’s website.**

**Risk Rating: Low**

**Observation:** Per NAHAC’s Bylaws, all Form 990’s should be posted on NAHAC’s website.

**Recommendation:** We recommend NAHAC post Form 990’s on company website. We would recommend updating the Bylaws to only post the 5 most recent years of 990s, since beyond that the information becomes less relevant.

**Management Response:** NAHAC will upload all past 990’s by the end of September 2017.

**Program Expenses**

**Finding #1: The cash disbursement policy does not address program related disbursements.**

**Risk Rating: Low**

**Observation:** The cash disbursement policy specifically addresses accounts payable and payroll related disbursements. The policy requires a board signature for disbursements over \$10,000; however, this policy does address program disbursements which are typically done through wires.

**Recommendation:** We recommend NAHAC update the cash disbursement policy to include program disbursements.

**Management Response:** NAHAC will update this policy to include wire transfers and other program related disbursements.

**Administrative Expenses**

**Finding #1: HHF funds were used for unallowable expenses in accordance with OMB A-87.**

**Risk Rating: Critical**

**Observation:** OMB A-87 requires that certain payments to employees be made in accordance with documented policies of the organization. 1 out of 30 expense transactions tested did not follow such a written policy and, therefore, the expense would be considered unallowable.

**Recommendation:** We recommend NAHAC establish and monitor policies to ensure compliance with all rules and regulations to which they are obligated.

**Management Response:** These funds were reimbursed on April 14, 2017 from non-HHF funds and made available for future HHF program expenses, in accordance with an agreement between NAHAC and UST.

## Fraud and Conflicts of Interest

### **Finding #1: NAHAC has not obtained annual conflict of interest statements from all board members.**

**Risk Rating: Low**

**Observation:** Per policies, NAHAC has not obtained annual conflict of interest statements from all board members.

**Recommendation:** We recommend NAHAC obtain conflict of interest statements from all board members annually.

**Management Response:** NAHAC has added the need for signed conflict of interest statement forms to its annual reporting calendar to ensure that this is completed going forward, and in a timely manner. Subsequent signed conflict of interest statement forms have been obtained.

## IT Environment and Data Security

### **Finding #1: NAHAC has not validated the data when systems were changed.**

**Risk Rating: Low**

**Observation:** NAHAC has not validated the data when systems were changed from Springboard to DMS.

**Recommendation:** We recommend NAHAC validate the data which should include a comprehensive migration plan, and documented reconciliation of the migrated data.

**Management Response:** NAHAC has initiated a process to validate, verify and reconcile the data that resides in the NMAS system. This process will incorporate the validation of the data that originally was created as a part of either the original Springboard or DMS systems. The initial effort will focus on the prior files that were funded under the Springboard or DMS systems. The process will consist of:

- Completing a data analysis of the data in the NMAS, DMS and Springboard Databases.
- Identifying the cases with missing Mortgage information in the data received from the DMS, and analyzing the Springboard database to locate mortgage information for these files/cases where available.
- Collecting the missing information (possibly by going back to scans of the original paper documents), where applicable, or to document a valid reason for the missing Mortgage information.

Once this process is completed, the non-funded files will be analyzed using a similar process.

## PRIOR FINDINGS AND OBSERVATIONS

#	Tracking of Outstanding Findings	Risk Rating	Management Response and Status Update, If Available
<b>General Findings:</b>			
<b>Findings from Q1 FY2016</b>			
1	Policy and Procedure (P&P) Annual Approval ( <i>Repeat</i> )	Moderate	NAHAC will add this item to the annual calendar to ensure it is done annually.
2	Standard Operating Procedure (SOP) Approvals ( <i>Repeat</i> )	Low	Management is considering merging the SOPs into the P&P manual, which will eliminate the additional need for approval.
3	Timeliness of Internal Compliance Monitoring ( <i>Repeat</i> )	Moderate	NAHAC will implement an Annual Calendar with specific timelines to ensure deadlines are met including internal compliance reviews. NAHAC will assign responsibilities to ensure accountability. E&S is in the process of performing internal control reviews for the outstanding periods through current.
4	P&P Updates Required	Low	NAHAC is in the process of making many programmatic changes and will be updating the P&P over the next few months.
<b>Eligibility and Underwriting:</b>			
<b>Findings from Q1 FY2016</b>			
1	Underwriting and Closing Training not Documented	Moderate	Resolved. No requirement for documentation noted. Evidence was obtained through observation and inquiry that training has occurred.
2	Recertification Process – Process and Tracking	High	NAHAC discontinued this policy in 2016 based on other states not performing recertification's. Closed by reference.
3	Handling of Borrower Complaint not in Compliance with P&P and SOP	Moderate	Resolved. No complaints noted in current quarter.
<b>Findings from Q2 FY2016</b>			
1	Red Flag Not Reported	Low	Resolved. During testing, all Red Flags noted by E&S were appropriately addressed by NAHAC.

**PRIOR FINDINGS AND OBSERVATIONS - CONTINUED**

<b>Findings from Q3 FY2016</b>			
1	Missing QC Forms on Withdrawals	High	Resolved. None noted in current quarter.
2	Inaccurate Liquid Asset Entries in DMS (2 Cases)	Low	Resolved. None noted in current quarter.
3	Documentation Impacting Eligibility Not Retained	Moderate	Resolved. None noted in current quarter.
<b>Reporting:</b>			
<b>Findings from Q1 FY2016</b>			
1	Accuracy of the Monthly Performance Reports ( <i>Repeat</i> )	High	For Q4, E&S was unable to reconcile the Total # of Applications, the Applications in Process, and the Unique Borrower Counts on the QPR. C&C Consulting (NAHAC vendor) was unable to provide supporting data and calculations for those fields. This finding will be closed by reference upon full implementation of the NMAS system. Additionally, for Q4 E&S confirmed that the original QPR and QFR were timely submitted to UST. The QFR was subsequently revised as a result of UST review. NAHAC is currently working with 3rd party contractors to review, validate and rebuild, if necessary, all data from past databases as part of the NMAS migration.
2	Timeliness of Submission of the Annual Eligible Entity Certification ( <i>Repeat</i> )	Low	This will be included on the Annual Calendar. Timely reminders will be sent to parties involved to ensure deadlines are met. Based on a deadline of June 23, 2018, E&S will reassess in Q4 FY2018 to confirm the annual certification was submitted.
<b>Administrative Expenses:</b>			
<b>Findings from Q3 FY2016</b>			
1	Authorization Matrix Not Followed - Check Signing and Purchasing	High	Resolved. Authorization matrix is now included on the check request forms. No findings noted in current quarter.
2	Operating Account Reconciliation Issue	Low	Resolved. This was primarily due to lack of access to non-HHF bank statements. All past statements were obtained and reconciliations have been performed through current, and are now being done on a timely basis.

**PRIOR FINDINGS AND OBSERVATIONS - CONTINUED**

3	Expense Not Posted to General Ledger Timely	Low	NAHAC will update the policy to show that expenses will be reviewed for cutoff as of year-end.
<b>Fraud and Conflicts of Interest:</b>			
<b>Findings from Q1 FY2016</b>			
1	Personally Identifiable Information (PII) Training is not Occurring	Moderate	Resolved on 7/27/2017. Training was provided by E&S.
2	RFP Vendor Selection Process not Developed	Moderate	Resolved. Policy #600.E.02
<b>Findings from Q2 FY2016</b>			
1	Vendor Monitoring Issue	Low	NAHAC is in the process of updating the procedures surrounding vendor monitoring to ensure control objectives are being met.
<b>IT Environment and Data Security:</b>			
<b>Findings from Q1 FY2016</b>			
1	SSAE 16 reports not Obtained or Reviewed for Critical Vendors, Including Management's Assessment of User Controls	Moderate	Resolved. Reports were obtained for critical vendors.
2	Timeliness of System Access Termination	High	Resolved. No findings noted in current quarter testing.
3	Vulnerability, Penetration and Disaster Recovery Testing did not Occur	High	Resolved. 3rd party infrastructure provider (Switch NAP) performs this testing on an annual basis by an independent audit firm. No exception were noted in the report.
4	Segregation of Duties and Appropriate System Access Reports not Retained	High	Resolved. No findings noted in current quarter testing.
5	Vendor Data Backup and Recovery Plans not Obtained ( <i>Repeat</i> )	Moderate	Resolved. Vendor data backup and recovery plans were obtained in current quarter testing.

## SCOPE OF SERVICES

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The dates utilized for our testing were April 2016 through June 2016, unless otherwise noted.

### **Planning Procedures:**

- 1 Obtain and read the approved NAHAC Policies and Procedures (P&P) relevant to the UST HHF Risk and Control Matrix (RACM) that were in effect during the quarter being tested. Document any changes. ( M:\Policies & Procedures )
- 2 Obtain the prior period internal compliance review reports, including the tracking of prior compliance findings, and assess for relevancy to the quarter being tested, to determine if the finding has been resolved.
- 3 Obtain the most recent U.S. Department of Treasury (UST) compliance review reports, and assess for findings relevant to the quarter being tested, to determine if the finding has been resolved.
- 4 Obtain and read the most recent external audit reports and management letters for relevant matters.
- 5 Document or update a summary of internal controls by RACM section, including a description of the control environment, and walkthrough controls as deemed necessary to gain an understanding of design and implementation of internal controls over compliance and accounting.
- 6 Review the prior period risk assessment.
- 7 Perform risk assessments for each RACM section for the current period.
- 8 Discuss planning and review procedures with engagement team and document significant items discussed in "Planning Summary and Notes".
- 9 Establish or review the sampling methodology and review procedures for each RACM section.

### **Eligibility and Underwriting:**

- 1 Obtain the following Approval, Withdrawal, Denial, and Funded Testing Populations for the quarter being tested: Obtain these loan-level populations from the Data Management System (DMS) ([www.nevadahhf.com](http://www.nevadahhf.com)):
  - a. B1 Approvals, Denials, and Withdrawals (3 separate populations)
  - b. B2 Approvals, Denials, and Withdrawals (3 separate populations)
  - c. B4 Approvals, Denials, and Withdrawals (3 separate populations)
  - d. B8 Approvals, Denials, and Withdrawals (3 separate populations)
  - e. Reconveyances (obtain population from the R Drive: Lien Satisfaction Recovery Reports)
- 2 Determine if the aforementioned populations reconcile to the Quarterly Performance Report (QPR) for the quarter being tested.
- 3 Determine sample sizes based on the lower of 30 items or 10% of population (see planning program)
  - a. Randomly select our samples from each aforementioned population.
- 4 Obtain the Underwriting Checklist Template for each program from <U:\Underwriting Forms\Underwriting Checklists>, and determine if each checklist aligns with the applicable HPA Term Sheet.
- 5 Obtain the Underwriting Guidelines for the B1, B2, B4, and B8 programs that were in effect during the quarter being tested, and determine if documented underwriting guidelines describe in detail the eligibility determination and underwriting requirements.
- 6 Determine if the Underwriting Guidelines for the B1, B2, B4, and B8 programs align with the applicable HPA Term Sheet.
- 7 Determine if the P&Ps related to Eligibility and Underwriting align with the B1, B2, B4, and B8 HPA Term Sheets.

## SCOPE OF SERVICES - Continued

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- 8 Complete the applicable Testing Calculator for all B1, B2, B4, and B8 Approvals, Denials and Withdrawals in our sample. Our testing calculators encompass the following:
  - a. For Approvals:
    - i. Determine if all Eligibility Criteria, including additional Eligibility Criteria for each structure of principal reduction, if applicable, was assessed based on the applicable underwriting guidelines.
    - ii. Determine if the Underwriting Checklist was completed.
    - iii. Determine if the approval decision was communicated to the borrower.
    - iv. Determine if eligibility pertaining to Program Exclusions was accurately assessed.
    - v. If the loan closed during the quarter being tested, determine if there is a complete closing package. A complete closing package is defined by the Closing Instructions for the title company.
    - vi. Review for red flags as detailed in the NAHAC Red Flag Policy.
  - b. For Denials:
    - i. Determine if the Denial QC validation form was accurately completed.
    - ii. Determine if the denial decision was communicated to the borrower via a decline letter.
    - iii. Determine if the decline reason documented in the decline letter corresponds to the documented decline reason in the DMS.
    - iv. Determine if the decline reason is per any applicable Program Exclusions.
    - v. Review for red flags as detailed in the NAHAC Red Flag Policy.
  - c. For Withdrawals:
    - i. Determine if the borrower withdrawal is documented in DMS.
    - ii. If the withdrawal occurred as a result of borrower communicating to Underwriting that there is no longer interest in the assistance, determine if the withdrawal reason is
    - iii. If the withdrawal occurred as a result of borrower not timely providing documentation requested from underwriting, determine if the borrower was allowed at least 7 business days to provide the missing or incomplete documentation prior to the withdrawal decision.
    - iv. Determine if the Withdraw QC validation form was accurately completed.
- 9 Complete testing on our sample of Reconveyances that occurred during the quarter being tested. Our reconveyance testing encompasses the following:
  - a. Determine if the reconveyance was recorded within 30 days of the request.
  - b. Determine if the recovery amount is correct per the repayment percentage outlined in the Promissory Note.
- 10 Determine if NAHAC staff are sufficiently qualified and trained to (1) inquire and obtain the minimum required documentation from potential HHF borrowers to determine eligibility, and (2) summarize and document their recommendations based on review and evaluation of the eligibility underwriting process performed.

## **SCOPE OF SERVICES - Continued**

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### **HHF Funds, Property and Other Assets:**

- 1 Obtain evidence of Treasury approved bank account with Bank of New York Mellon.
- 2 Determine if HHF Funds are properly segregated from non-HHF Funds.
- 3 Determine if program and administrative funds, property and other assets, duties over custody of cash, disbursement approval, recording, reconciling, and report review duties are segregated.
- 4 Determine whether all liens are being adequately tracked, that liens released are in accordance with term sheets, including any required recoveries. (Note: The same sample used for eligibility testing for reconveyances can be used for this testing procedure.)

### **Reporting:**

- 1 Obtain the Quarterly Performance Report (QPR) and the Quarterly Financial Report (QFR) submitted to UST for the quarter being tested.
  - a. Determine if the QPR posted to the website (NAHAC.org) are the same version of the reports that were provided to UST.
  - b. Determine if the QPR and the QFR were submitted to UST timely (45 days after the end of the quarter and annually). Quarterly (Feb. 15, Apr. 15, Aug. 15, Nov. 15)
  - c. Determine if the financial and non-financial amounts and percentages on the QPR and the QFR agree to supporting evidence from DMS, Quick Books, or other applicable NAHAC sources.
- 2 During the fourth quarter testing, determine if NAHAC submitted and obtained approval from the Board of Directors for the budget for the following fiscal per policy.
- 3 Determine if NAHAC submitted monthly activity reports timely (4 business days after the end of the month) to UST for the quarter. Ensure the reports are complete and accurate.
- 4 Determine if NAHAC engages an external auditor, and that the external auditor completes annual audited financial statements no later than 120 (Oct 28th) days after the end of the fiscal year.
- 5 Determine if the annual audited financial statements are submitted to UST, as required by the HPA, no later than 180 (Dec 27th) days after year end of the fiscal year.
- 6 Determine if NAHAC completed the following reporting, and submitted it to UST:
  - a. Bring-Down Certificate (annually by June 23).
  - b. Annual Eligible Entity Certifications (annually by June 23).
- 7 Determine if NAHAC completed the following reporting and submitted it to the IRS. Complete testing on a quarterly basis for any reporting where the due date falls within the quarter being tested.
  - a. Form 8868: Exempt Organization Return
  - b. Form 8879-EO: IRS e-file Signature authorization for Exempt Organization (filed with 990) (November 15)
  - c. Form 990: Corporate and IRS 990 requirements for NAHAC (November 15 initial deadline, ext can be filed for due dates on February 15 and May 15)
  - d. NV SUI Forms (Quarterly: January 31, March 30, July 31, October 31)
  - e. NV Quarterly Wage Report (Quarterly: January 31, March 30, July 31, October 31)



## **SCOPE OF SERVICES - Continued**

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- f. Form 941: Payroll and G/L Reconciliation (reconcile ADP report to G/L) (Quarterly: January 31, March 30, July 31, October 31)
  - g. Form 940: Payroll and G/L Reconciliation (reconcile ADP report to G/L) (January 31) - Step ONLY applicable in FYQ2 testing.
  - h. Form 1098: Mortgage Assistance Payments (January 31) - Step ONLY applicable in FYQ2 testing.
  - i. Form 1099: A/P Payments (January 31) - Step ONLY applicable in FYQ2 testing.
  - j. Form W-2s: Employee Annual Wage Statements (January 31) - Step ONLY applicable in FYQ2 testing.
- 8 Determine if NAHAC completed the following reporting, and submitted it to the State of Nevada. Complete testing on a quarterly basis for any reporting where the due date falls within the quarter being tested.
- a. NV Annual List of Officers and Directors (February 28) - Step ONLY applicable in FYQ3 testing.
  - b. NV State Business License (expires August 31) - Step ONLY applicable in FY1 testing.
- 9 Determine if NAHAC maintains documentation of the internal control program (ICP). If material modifications were made to the ICP, ensure NAHAC notified Treasury in writing and received approval prior to change.
- 10 Determine if the annual audited financial statements and Form 990 are posted to NAHAC's website. ([www.nahac.org](http://www.nahac.org))

### **Program Expenses:**

- 1 Perform the following testing to determine if NAHAC disbursements made to servicers were for approved amounts that have been authorized through NAHAC's eligibility and underwriting process.
- a. For the sample of the approved borrower loan assistance tested under the current quarter's eligibility testing, determine if the approved borrower assistance amount agrees to the amount disbursed.
    - i. Determine if the disbursement was posted to the correct program general ledger expense account.
    - ii. Determine if the payment issued in accordance with the approved policies and procedures in place for the quarter to include proper authorization and processing of payment.
    - iii. Review NAHAC's list of approved servicers and determine that all funds disbursed were made to an approved servicer in accordance with the terms of the servicer contract.

### **Administrative Expenses:**

- 1 Obtain the detailed GL activity for GL accounts that are grouped in the QFR as Operating/Administrative, Transaction Related and Counseling expenses (51001 through 791002) excluding journal entries.
- 2 Select a sample of the lower of 10% or 30 from the above population.
- 3 Perform testing on the sample selected to test for compliance with the HPA and policies and procedures to include the following:
- a. Trace to supporting documentation such as invoices, receipts and travel reimbursement requests as applicable.
  - b. Determine if the transaction was authorized and paid in accordance with the approved policies and procedures in place during the current quarter.
  - c. Determine if the transaction was posted to the proper expense account or other applicable general ledger account.

## **SCOPE OF SERVICES - Continued**

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- d. Determine if the transaction was posted to the proper period.
- e. Determine if the transaction would be allowable in accordance with the Uniform Guidance.
- f. Determine if the transaction was for HHF purposes.

### **Fraud and Conflicts of Interest**

- 1 Obtain and read any reporting submitted to UST and Attorney General regarding fraud findings.
- 2 Determine if there is an anonymous fraud hotline for individuals to report instances of suspected fraud. Review any reported activity for adequate responses by NAHAC.
- 3 Determine if NAHAC obtained fraud insurance through contract review and determine if payments are current.
- 4 Determine if training occurred for fraud, conflict of interest, detection of homeowner fraud, IT security, safeguarding HHF data, and borrower PII with documentation showing who attended and what was covered.
- 5 Determine if an annual conflict of interest statement was obtained for all board members.
- 6 Obtain 3 employee files, select at random and perform the following:
  - a. Determine if there is a conflict of interest statement signed within the past 12 months.
- 7 Determine if NAHAC has P&Ps in place to avoid employees involved in HHF loan underwriting or approval decisions for any family member or related party.
- 8 Obtain a list of new vendors during the quarter. and scan listing for potential conflict of interests.
  - a. Obtain all contracts for new vendors, if applicable and scan listing for potential conflict of interests. For instance, identify and assess any vendor kickbacks.
  - b. For new vendors that do not require contracts, determine if there is an appearance of a conflict of interest. Perform inquiries as needed.

### **IT Environment and Data Security**

- 1 Determine and assess the physical security of Information Technology hardware through inquiry with NAHAC management.
- 2 Determine if management has obtained and performed an assessment of SSAE 16 reports including user controls for key systems such as ADP, Agilitec, C&C Consulting, and QuickBooks.
- 3 Assess if the system access for users is appropriate based on each employee's role, and that access to borrower PII is limited to authorized users only.
  - a. Test a sample of new user access's for appropriate authorization, such as a SAAR.
  - b. Obtain a list of terminated employees and ensure all access has been removed for those employees.
- 4 Determine if job functions are properly segregated based on system access. Use new user access sample from item #3 above.
- 5 Determine if NAHAC has performed vulnerability, penetration, and disaster recovery testing. Evaluate the frequency for reasonableness.
- 6 For any system changes, determine if data validation occurred to ensure the data reconciles from the old to the new system.