

**INTERNAL COMPLIANCE REVIEW
HARDEST HIT FUND**

**3rd QUARTER OF FISCAL YEAR 2018
(JANUARY 1, 2018 – MARCH 31, 2018)**



**HARDEST HIT FUND
INTERNAL COMPLIANCE REVIEW
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Table of Contents

Internal Compliance Report 1

I. Executive Summary 2-3

II. Definition of Ratings 4

III. Findings, Recommendations, and Observations 5-6

IV. Prior Findings and Observations 7-9

V. Scope of Services 10-14

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", of this report for activity that occurred in the third quarter (Q3) of fiscal year (FY) 2018. 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.

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 Q3 FY 2018 are described in Section III of this report. 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 with applicable rules and regulations.

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 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
October 31, 2018

I. EXECUTIVE SUMMARY

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 covering Q3 FY2018, which includes the period of January 1, 2018 through March 31, 2018. The overall objective of this engagement is to assist the Board of Directors and Management in fulfilling NAHAC’s internal compliance and control program requirement per the HHF Risk and Control Matrix (RACM).

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 Q3 FY2018 testing only.

#	SUMMARY OF NEW FINDINGS	RISK RATING
General		
	None noted	
Eligibility / Underwriting		
1	Underwriting Guidelines (Operational Term Sheets) do not match the approved 21 st Amendment to the HFA Participation Agreement.	Moderate
HHF Funds, Property and Other Assets		
1	Payment received on lien reconveyance was applied to the wrong program.	Moderate
Reporting		
	None noted	
Program Expenses		
	None noted	
Administrative Expenses		
	None noted	
Fraud and Conflicts of Interest		
	None noted	
IT Environment and Data Security		
	None noted	

I. EXECUTIVE SUMMARY - Continued

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 on current quarter testing, as well as unresolved prior quarter findings.

<u>Risk Assessment Area</u>	<u>Q3 Risk Rating</u>
General	Satisfactory
Eligibility and Underwriting	Satisfactory
HHF Funds, Property, and Other Assets	Satisfactory
Reporting	Needs Improvement
Program Expenses	Satisfactory
Administrative Expenses	Satisfactory
Fraud and Conflicts of Interest	Exceptional
IT Environment and Data Security	Exceptional

II. DEFINITION OF RATINGS

RATINGS OF RISK AND CONTROL MATRIX AREAS

The following ratings of the 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.

General

No findings identified in the current period.

Eligibility / Underwriting

Finding #1: Underwriting Guidelines (Operational Term Sheets) do not match the approved 21st Amendment to the HFA Participation Agreement.

Risk Rating: Moderate

Observation: During testing procedures, we noted the term sheets do not match the approved 21st Amendment to the HFA Participation Agreement. However, we did note that NAHAC was following the appropriate policies but had just not updated the Underwriting Guidelines appropriately.

Recommendation: The Underwriting Guidelines (Operational Term Sheets) should be updated accordingly to match the 21st Amendment to the HFA Participation Agreement.

Management Response: NAHAC will review and modify the procedure related to creating the Underwriting Guidelines (Operational Term Sheets) to ensure they match the approved amendments.

HHF Funds, Property and Other Assets

Finding #1: Payment received on lien reconveyance was applied to the wrong program.

Risk Rating: Moderate

Observation: Out of 9 samples selected to test lien reconveyance, we noted one payment received on a lien reconveyance was applied to the wrong program in NAHAC’s accounting software.

Recommendation: We recommend that NAHAC develop a control procedure to ensure that all payments are applied to the correct program.

Management Response: NAHAC corrected the error once discovered during this quarter’s testing by recording an adjusting journal entry within the accounting software. This correction will also be made to the quarterly reports. NAHAC will review and modify the procedure related to coding payments to individual program accounts within the accounting software to ensure that the errors are not repeated.

Reporting

No findings identified in the current period.

III. FINDINGS, RECOMMENDATIONS, AND OBSERVATIONS - Continued

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Program Expenses

No findings identified in the current period.

Administrative Expenses

No findings identified in the current period.

Fraud and Conflicts of Interest

No findings identified in the current period.

IT Environment and Data Security

No findings identified in the current period.

IV. PRIOR FINDINGS AND OBSERVATIONS

#	Tracking of Outstanding Findings	Risk Rating	Management Response and Status Update, If Available
General Findings:			
Findings from Q1 FY2016			
1	Policy and Procedure (P&P) Annual Approval. <i>(Repeat)</i>	Moderate	This has been added to the Annual Calendar and is pending revision of the policies and procedures.
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 has implemented an Annual Calendar with specific timelines to ensure deadlines are met including future 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. <i>(Repeat)</i>	Low	NAHAC is in the process of making many programmatic changes and will be updating the P&Ps.
Eligibility and Underwriting:			
Findings from Q1 FY2017			
1	Supporting data did not match the QPR. <i>(Repeat)</i>	Low	Resolved.
2	"In Default" section of QC Checklist does not have a "not applicable" option. <i>(Repeat)</i>	Low	NAHAC will add an "N/A" box to the "In Default" section of the QC Checklists.
Findings from Q3 FY2017			
1	Inadequate documentation for eligibility file. <i>(Repeat)</i>	Moderate	NAHAC will review and modify the procedure related to scanning files and document retention to ensure that the errors are not repeated.
Findings from Q2 FY2018			
1	Incorrect promissory note was used.	High	Resolved. No findings noted in current quarter.
2	Closing checklist was not fully completed. <i>(Repeat)</i>	Moderate	NAHAC will conduct staff training that emphasizes the importance of filling out the closing checklist forms completely and accurately.
3	"Decline or Withdraw QC Form" is not complete and accurate. <i>(Repeat)</i>	Moderate	NAHAC will conduct staff training that emphasizes the importance of filling out the QC forms completely and accurately.
4	During approval process, policies related to self-employed homeowners was not followed.	High	Resolved. No findings noted in current quarter.

IV. PRIOR FINDINGS AND OBSERVATIONS - Continued

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HHF Funds, Property, and Other Assets:			
Findings from Q2 FY2018			
1	A lien was not released in a timely manner.	Moderate	Resolved. No findings noted in current quarter testing.
Reporting:			
Findings from Q1 FY2016			
1	Timeliness of Submission of the Annual Eligible Entity Certification and HFA Certification. (aka Bring-Down Certificates) <i>(Repeat)</i>	Low	This has been included on the Annual Calendar in June. The subsequent year certificates were filed timely on June 13, 2018.
Findings from Q4 FY2016			
1	A complete "Annual Calendar" was not implemented. <i>(Repeat)</i>	High	NAHAC is in the process of finding an individual who will be responsible for compliance within the organization. One of those duties will be fully implementing the "Annual Calendar".
Findings from Q2 FY2017			
1	Annual audit of the financial statements was not completed timely, due to this the audit was also not submitted timely to the UST, as required by the HPA. <i>(Repeat)</i>	Moderate	During this time frame, NAHAC was going through significant management and third party professional turnover. This hindered the timeliness of the audit. NAHAC has added the deadline to the Annual Calendar to ensure that this is completed in a timely manner going forward.
Findings from Q3 FY2017			
1	The Eligible Entity Internal Control Certification was submitted late. <i>(Repeat)</i>	Low	NAHAC has added the preparation of the certificate to its annual reporting calendar to ensure that this is completed in a timely manner going forward.
Findings from Q4 FY2017			
1	The budget was not approved by the board prior to the beginning of FY2018.	Moderate	NAHAC has added the preparation of the certificate to its annual reporting calendar to ensure that this is completed in a timely manner going forward.
Findings from Q2 FY2018			
1	QPR was not submitted timely to the UST. <i>(Repeat)</i>	Low	NAHAC will formerly request extensions and obtain approvals if filing of future reports to UST will not be sent by the required due dates.
Program Expenses:			
Findings from Q4 FY2016			
1	The cash disbursement policy does not address program related disbursements. <i>(Repeat)</i>	Low	NAHAC is in the process of making many programmatic changes and will be updating the P&Ps.

IV. PRIOR FINDINGS AND OBSERVATIONS - Continued

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Administrative Expenses:			
Findings from Q1 FY2017			
1	There are conflicting NAHAC policies in place. <i>(Repeat)</i>	Moderate	NAHAC will review and update policies and procedures.
2	No policy exists for recurring expenses. <i>(Repeat)</i>	Moderate	NAHAC will consider updating its policies regarding recurring expenses.
Findings from Q2 FY2018			
1	Expenses were recorded in the wrong quarter.	Low	Resolved. No findings noted in current quarter.

V. SCOPE OF SERVICES

The dates utilized for our testing were January 2018 through March 2018, unless otherwise noted.

Planning Procedures:

- 1 Obtain and read the approved NAHAC Policies and Procedures (P&P) relevant to the UST HHH 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):
 - 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 of 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 HFA Participation Agreement.
- 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 (Operational Term Sheet) for the B1, B2, B4, and B8 programs align with the applicable HFA Participation Agreement.
- 7 Determine if the P&Ps related to Eligibility and Underwriting align with the B1, B2, B4, and B8 HPA Summary Guidelines.

- 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.

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, May 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 days (Oct 28th) 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 days (Dec 27th) 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).
 - c. Eligible Entity Internal Control Certification (annually by Oct. 31).
- 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: Application for Automatic Extension of Time To File an Exempt Organization Return
 - b. Form 8879-EO: IRS e-file Signature authorization for Exempt Organization (filed with 990) (November 15, May 15 if extended)
 - 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 (NV Quarterly Wage Report) (Quarterly: Jan 1 to Mar 31)
 - e. Form 941: Payroll and G/L Reconciliation (reconcile ADP report to G/L) (Quarterly: July 31, August 31, September 30, December 31)
 - f. Form 1098: Mortgage Assistance Payments (January 31) - Step ONLY applicable in FYQ3 testing.
 - g. Form 1099: A/P Payments (January 31) - Step ONLY applicable in FYQ3 testing.
 - h. Form W-2s: Employee Annual Wage Statements (January 31) - Step ONLY applicable in FYQ3 testing.

V. SCOPE OF SERVICES - Continued

- 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 FYQ1 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)
- 11 Determine if monthly financials were provided to the board no later than 30 days after close of the prior month.

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 (6000 through 82100) 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.
 - 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.
- 4 Select two pay periods during the quarter and review for any significant or unusual items.

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 (Step ONLY applicable in FYQ4 testing):
 - 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 Speridian.
- 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.