



Internal Audit Department
NeighborWorks® America

Audit Review of Network Disaffiliations

Project Number: NW.FLD.DISAFFILIATION.2022

Audit Review of Network Disaffiliations

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TO: Members of the NeighborWorks America Audit Committee
FROM: Fred Udochi, Chief Audit Executive
DATE: August 3, 2022
RE: **Audit Review of Network Disaffiliations**

Attached is our draft audit report for the Network Disaffiliations review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: M. Rodriguez
S. Ifill
K. Esmond
R. Simmons
A. Weldon

**Function Responsibility and Internal Control Assessment
Audit Review of Network Disaffiliations**

Business Function Responsibility	Report Date	Period Covered
Field Operations and Organizational Assessment Division (OAD)	August 3, 2022	January 1, 2019 Thru January 26, 2022
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations	Generally Effective¹	
Reliability of Financial Reporting	Not Applicable	
Compliance with Applicable Laws and Regulations	Not Applicable	

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 1 Policies and Procedures Not Aligned to Actual Practice</p> <p>Policies and procedures serve as a guide and provide steps to accomplish a department’s objectives. Regularly reviewing policies and procedures for relevancy and accuracy ensures that they continue to be aligned with practice. Internal Audit noted several instances where the policy and procedures were not consistent with actual practice.</p> <p>Risk Rating: (b) (5)</p>	<p style="text-align: center;">Yes</p>	<p>Recommendation 1 - Update Policies and Procedures</p> <p>Update the policies and procedures to reflect current practices. Policies and procedures should be periodically reviewed and updated to ensure continued alignment with actual practices. Establishing a time frame for periodic updates of the policy and procedures would ensure practices are reflected in the policies and procedures. Updated policies and procedures should be formally communicated to all relevant staff and provide training, as necessary.</p>	<p style="text-align: center;">Yes</p>	<p>Field Operations will work with Organizational Assessment and other relevant divisions to update the disaffiliation policies and procedures to reflect current practices, including a timeframe for periodic review and updates. The updated policies and procedures will be communicated to all relevant staff and training will be provided as necessary.</p>	<p style="text-align: center;">September 2023</p>	<p>Internal Audit accepts management’s response.</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>Observation 2 - Supporting Documentation Not Consistently Stored in Central Location</p> <p>Prior to disaffiliation of network organization, NWA may attempt to remediate risk/ poor performance via MOUs. The MOU outlines roles and responsibilities of both parties which may include the submission of various documents. Internal Audit noted that some requested documents were not able to be obtained due to the lack of a centralized repository</p> <p>Risk Rating: (b) (5)</p>	Yes	<p>Recommendation 2 - Supporting Documentation for Network Disaffiliations Should Be stored in Central Location</p> <p>Internal Audit recommends that management maintain supporting documents for network organizations in one location. Policies and procedures should contain language as to who should have access to these files. Policies and procedures should also dictate the location of the various types of documentation (e.g., Grants Portal, Prompt Portal, Shared Drive) and provide guidance for the handling of updated documentation.</p>	Yes	Field Operations will incorporate into the disaffiliation policies and procedures the location of files and provide handling guidance to staff for files related to organizations going through disaffiliation.	September 2023	Internal Audit 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.

<p align="center">Management Responses to The Audit Review of: Network Disaffiliations</p>		
# Of Responses	Response	Recommendation #
2	Agreement with the recommendation(s)	1, 2
0	Disagreement with the recommendation(s)	NA

Background

The NeighborWorks® brand is a property asset to the Corporation and as a result, it is important for the members of the NeighborWorks® network to remain in good financial and operational standing with NeighborWorks® America and within the communities in which they serve. In pursuit of this standard, there are occasions when organizations are disaffiliated from the network, as members; due to their inability to maintain standards for membership; after various attempts by the Corporation have been made to mitigate them. NeighborWorks® Organizations (NWO) may be disaffiliated by the Corporation for a variety of reasons which include, but are not limited to, the following:

- NWO failure to meet obligations under the charter agreement and/or Investment and Grant Agreement between NeighborWorks America and the NWO;
- NWO failure to meet the terms of Provisional Charter status and failing to emerge from provisional status; and
- NWO voluntarily relinquishes its charter to NeighborWorks America.

The Corporation has developed policies and procedures that allow the organization to monitor the progress of network organizations and take action to mitigate risk while working together with the Division of Field Operations, Organizational Assessment Division (OAD), Office of General Counsel (OGC), and other divisions as appropriate. This includes OHTS meetings where performance and risk related to NWOs are discussed, written correspondence to the NWO, and an appointment of a workout task group who monitors various steps of the disaffiliation process. These processes were reviewed by Internal Audit for completeness and adherence to the guidelines of the Disaffiliations section in the *“Evolution of the NeighborWorks Network Policies and Procedures Manual August 2014”*. Additional sections of the policy that addressed events leading up to a disaffiliation were also reviewed.

Objective

The objective of this review was to obtain reasonable assurance that:

- Network disaffiliations were appropriately executed according to corporate policy
- Adequate controls exist and are operating effectively over the disaffiliation process

Scope

Network disaffiliations that occurred between January 1, 2019, and January 26, 2022.

Methodology

Internal audit met with Field and OAD to obtain an understanding of the network disaffiliations process. The Evolution of the NeighborWorks Network Policies and Procedure Manual and the Organizational Health tracking System (OHTS) Policies and Procedures were obtained and reviewed. A population of disaffiliated organizations was obtained from field. Based on the small population, the scope was expanded from one year to three years. Since the population for three years was still considerably small, the entire population was included in the sample. Once the sample was selected, each disaffiliated NWO was chronologically traced through the OHTS reports using the disaffiliation date as the starting point to ensure that the proper steps, per policy, were followed for disaffiliation. Supporting documentation reviewed included, but was not limited to OHTS reports, Memorandum of Understandings (MOU), disaffiliation letters, payments and grants in the Grants Portal, capital fund balances (both restricted until first use and permanently restricted funds), close-out audit letters, workout/close-out task group memos, and termination and settlement agreements.

Below are the observations and recommendations that resulted from the testing performed.

Observations and Recommendations

Observation #1 - Policies and Procedures Not Aligned to Actual Practice

Policies and procedures serve as a guide and provide steps to accomplish a department's objectives. As the work environment, processes, and technology change, policies and procedures require maintenance and updating to remain effective. Regularly reviewing policies and procedures for relevancy and accuracy ensures that they continue to be aligned with practice. Internal Audit noted several instances where the policy and procedures were not consistent with actual practice. Some examples include:

- Per policy, periodic reporting to the Audit Committee is required; however, Internal Audit observed that this reporting appears to be occurring at the Board of Directors meetings through the CEO report instead of the Audit Committee. In addition, per the policy, upon issuance of a Provisional Status, the OHTS Committee is immediately notified by Field Operations, SVP. Upon follow up with Field it was determined that the decision to move to Provisional Charter Status is typically made at the OTHS meeting.

- Per policy, A written document - “Plan for Long-Term Support”- will accompany the letter of disaffiliation with a plan for long-term support of the service area. As disaffiliation proceeds, Field Operations-DC along with the region office will provide the “Plan for Long-Term Support” to OHTS which includes the strategic objectives for serving clients in markets affected by the revocation of a NeighborWorks charter. Internal Audit was able to determine through review and through discussion that the Plan for Long Term support document is no longer being used. Instead, the discussion on long term support is discussed at the OHTS meetings.
- For additional examples, see APENDIX A.

Outdated policies and procedures provide inaccurate guidance to employees and can fail to comply with or fully address new regulations. This misalignment between policies and procedures and actual practice increases the risk that control structures in place will be inefficient and ineffective making achieving objectives more challenging.

Recommendation #1 – Update Policies and Procedures

Internal Audit recommends that Management update the policies and procedures to reflect current practices. This includes evaluating and determining if reporting to the Board of Directors instead of the Audit Committee makes sense. Policies and procedures should be periodically reviewed and updated to ensure that risks are appropriately addressed and that there is continued alignment with actual practices. Establishing a time frame for the periodic update of the policy and procedures would ensure current practices are reflected in the policies and procedures. It is recommended that periodic update occur at least every three years. Once policies and procedures have been updated, they should be formally communicated to all relevant staff and provide training, as necessary.

Observation #2 - Supporting Documentation Not Consistently Stored in Central Location

Prior to disaffiliation of network organization, NWA may attempt to remediate risk/poor performance via MOUs. The MOU outlines roles and responsibilities of both parties which may include the submission of various documents. Internal Audit noted that some requested documents are kept at the regional level or were not able to be obtained due to the lack of a centralized repository for documents provided by the NWOs to their relationship managers. Internal Audit further noted that certain documents, such as unaudited financial statements required by MOUs, are only uploaded to the PROMPT portal when it relates to clearing a finding. Failure to have a central location for network organization documents increases the risk that documents will be lost and unable to be produced when needed. This can lead to a lack of transparency, communication gaps, and uninformed decisions.

Recommendation #2 - Supporting Documentation for Network Disaffiliations Should Be stored in Central Location

Internal Audit recommends that management indicate and maintain supporting documents for network organizations in one identifiable location. Policies and procedures should contain language as to who should have access to these files. Centralizing documents in one location allows accessibility, provides consistency, and increases efficiencies. Policies and procedures should dictate the location of the various types of documentation (e.g., Grants Portal, Prompt Portal, Shared Drive) and provide guidance for the handling of updated documentation.

Conclusion

The audit review of the Network Disaffiliations Process identified opportunities for Field Operations to strengthen its internal control structure. Internal audit noted that while there is some misalignment between policy and practice, a large portion of the associated risk appears to be addressed in the current practices. Outside of this, the process for the period in review appears to have been conducted in accordance with the corporate policies and procedures. Our interactions with the Field and OAD team were collaborative and productive. We would like to extend our thanks to the Senior Vice-Presidents and teams for their cooperation and assistance during this review.

APPENDIX A

Additional instances where the policy and procedures were not consistent with actual practice:

- Per policy, region staff performs an inventory and quality assessment of NeighborWorks America assets within the organizations. Upon follow up with both Field and OAD, Internal Audit confirmed that this review used to be done internally but is now conducted by a 3rd party as outlined under the close-out audit section within the policy.
- Per policy, the Regional Vice President consults with the Senior Vice President, Field Operations to draft a set of talking points regarding the disaffiliation. Upon follow up with Field, talking points are not provided.
- Per policy, the length of time an organization may remain in Provisional Status will not exceed twelve (12) months unless extended by the COO. Upon follow up with Field this approval is provided by the OHTS Committee at the OHTS meeting. A review of the OHTS reports confirms that the approval occurs at the OHTS meetings.

Other policy observations:

- Internal Audit noted that some titles of staff required updates
- Temporarily restricted grants should be updated to reflect new terminology (Restricted until First Use) and changes to uses.