

Internal Audit Department
NeighborWorks® America

Audit Review of the Non-Network Memorandum of Understanding (MOU)/Grant Award Process

Project Number: FO.NNETMOU.2013

Audit Review of the Non Network MOU/Grant Award Process

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April 3, 2013

To: NeighborWorks America Audit Committee

Subject: Audit Review of the Non-Network MOU/Gant Award Process

Please find enclosed the final audit report of the Non-Network MOU/Grant Award process. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Director of Internal Audit

Attachment

cc: E. Fitzgerald
M. Forster
C. Wehrwein
J. Bryson
D. Phoenix
M. Butchko

Function Responsibility and Internal Control Assessment
Audit Review of the Non-Network MOU/Grant Award Process

Business Function Responsibility	Report Date	Period Covered
Field Operations	April 3, 2013	Grant Awards made to Non-Network Organizations in FY 2011 & FY 2012
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	

This report was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

¹ **Legend for Assessment of Internal Control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

Executive Summary of Observations, Recommendations, and Management Responses

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>Observation No. 1</p> <p>Absence of Standard "Right to Audit" Clause</p> <p>Per review of the selected grant agreements and MOUs, 19 did not include a "Right to Audit" or "Monitoring of the Grant Award" clause. A right to audit clause would give NeighborWorks the ability to monitor and evaluate the use of NeighborWorks funds within the organization with proper notice.</p> <p>Risk Rating: Moderate</p>	Yes	<p>Recommendation No. 1</p> <p>Revision to the Non-Network Organization Grant Agreement Template – Right to Audit Clause</p> <p>We recommend Management revise the standard non-network Grant Agreement to include a "Right to Audit" Clause. The clause should outline acceptable notification requirements that would provide NeighborWorks with access to the non-network organization's records and require the cooperation of its staff in order to monitor and evaluate the use of the funds provided by NeighborWorks.</p>	Yes	<p>Management agrees with this recommendation with the addition of "...or examine books and records" after "Right to audit..." to account for the flexibility for NeighborWorks America to examine books, records and documents short of a formal audit, recognizing that we should always receive a third-party financial audit as noted in 2 and 3 below.</p>	October 2013	<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 No. 2 A-133 Report Submission/Review Requirement</p> <p>Many of the non-network organizations that NeighborWorks partners with are required to have A-133 audits performed; however, the reports are not required to be submitted and subsequently reviewed to be eligible for NeighborWorks non-network expendable grants. The grant award process could be improved by requiring applicable non-network organizations to submit their A-133 report results for review in addition to financial statement audit reports.</p> <p>Risk Rating: Moderate</p>	Yes.	<p>Recommendation No. 2 A-133 Report Submission/Review Requirement</p> <p>We recommend updates to the Grant Award process to require applicable non-network organizations (e.g., organizations receiving/expending federal funds in excess of \$500,000 in a year) to submit A-133 reports (covering the same period of the financial audit reports). Upon receipt of the A-133 reports, we recommend OAD review the reports to assess whether findings exist that may increase the risk to NeighborWorks.</p>	Yes.	<p>Management agrees with the recommendation that a request for A-133 reports with the financial statement audit, for applicable organizations, should be part of a standard process. This requirement will be included in future grant agreements for those subject to A-133 Reports, with the right for management to make an exception. Management notes that from time to time, exceptions to this requirement may be needed given the range of reasons non-network grants are issued, but agrees to formally document the exception and rationale for it when necessary.</p> <p>A copy of the exception will be kept in the file.</p>	October 2013	Internal Audit accepts Management's response.

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>Observation No. 3</p> <p>Reporting Requirements/Deliverables in Standard Grant Agreements</p> <p>Based on our review, we identified seven grant awards (35% of the sample) to non-network organizations where the default reporting requirements noted below were applicable:</p> <ul style="list-style-type: none"> • “Non Network Organization shall submit a report to NeighborWorks America on the Use and accomplishments of these unrestricted expendable grant funds within forty-five (45) days following the full expenditure of the grant funds or termination of the grant.” • “The expendable grant funds being provided herein shall be spent within two years of the date of execution of this Grant Agreement. “ <p>Risk Rating: Low</p>	Yes.	<p>Recommendation No. 3</p> <p>Revision to the Standard Non Network Grant Agreement – Reporting Requirements/Deliverables</p> <p>We recommend updates to the standard non-network grant agreement template to require periodic/interim reporting during the grant award period.</p>	Yes.	Management agrees with the recommendation to update the non-network grant agreement template to require periodic/interim reporting during the grant award period, but believes an analysis of the size, term and purpose of non-network grants needs to be undertaken to develop an effective policy that takes materiality into consideration.	December 2013	Internal Audit accepts Management's response.

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>Observation No. 4</p> <p>Financial Audit Reviews</p> <p>Financial audit reporting parameters have not been established to define "most recent" audit report (i.e., within 6 months of the fiscal year end). We identified four grant awards (20% of the sample) that were supported by a financial analysis of financial statements in excess of 12 months old.</p> <p>In addition, there were two occurrences (10% of the sample) where the OAD financial analysis was not performed and the documentation supporting the exception granted was not sufficient.</p> <p>Risk Rating: Moderate</p>	<p>Yes.</p>	<p>Recommendation No. 4</p> <p>Financial Audit Reviews</p> <p>We recommend Management establish parameters to define "most recent audit report" and those parameters at a minimum mimic the parameters established for network organizations (i.e., within six months of the fiscal year end).</p> <p>In the event that audit reports are not received in a timely manner, we recommend the Director of Field Operations document a valid business case/rationale to provide organizations with an exception to support either the acceptance of an older audit report or the omission of an audit report.</p>	<p>Yes.</p>	<p>Management agrees with recommendation to establish parameters to define "most recent audit report" consistent with requirements already in place for network grantees to provide third-party financial audit reports.</p>	<p>October 2013</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 No. 5</p> <p>The Purpose of Funds description needs to be more specific</p> <p>Based on the review of the non-network organizational grant agreements, Internal Audit noted four instances (20% of sample) where the "Purpose of Funds" description could have been more specific in order to make it easier to understand the intended use of the grant award and subsequently evaluate if the objectives were met. Examples of this non-specific wording include the following:</p> <ul style="list-style-type: none"> • "...support capacity building activities" • "...support internship program" <p>Per further inquiry with Management, Internal Audit noted that details of intended use may have been communicated to NeighborWorks and/or the respective organization in a different manner; however, it was not always formally documented with the specific grant award.</p>	<p>Yes.</p>	<p>Recommendation No. 5</p> <p>Formal Documentation of Purpose of Funds</p> <p>We recommend Management more consistently and explicitly document expected deliverables, objectives, or outcomes to be achieved with the funds provided to the non-network organizations. Internal Audit notes this may be documented formally in the Grant Agreement, Memorandum of Understanding or Proposal submitted to NeighborWorks, or as a referenced attachment to the Grant Agreement (i.e., Description of Activities to be Undertaken, Objectives to be Achieved, etc.). Also, if documented in a document other than the Grant Agreement, we recommend that Management accurately reference the other document(s) in the Grant Agreement.</p>	<p>Yes.</p>	<p>Management agrees with the recommendation and will develop new agreement formats and procedures as part of its analysis of non-network grants and MOUs noted above in # 3. Management agrees that in the existence of both an MOU and Grant Agreement, they must align in definition of requirements; otherwise, only Grant Agreements should be utilized.</p>	<p>December 2013</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
Risk Rating: Moderate						
Observation No. 6 Outdated/Invalid MOU Agreements There were four grant awards (20% of the sample) to non-network organizations selected where the related MOU or supporting amendments were not current or clearly aligned with the grant award selected. In addition, two of the four MOUs noted, were not accurately referenced in the Grant Agreement (i.e., based on Internal Audit follow up it was determined that an MOU existed to support the grant agreement; however, the MOU was not a referenced in the grant agreement). Based on this observation, the intended purpose and expected deliverables/outcomes of the current grant award were not clear. Risk Rating: Moderate	Yes.	Recommendation No. 6 Amendments/Addendums to MOU Agreements We recommend when Management generates amendments/addendums to existing MOUs the purpose of the additional funds provided are specifically noted including deliverables and responsibilities, the term of the additional funds provided under the addendum/amendment, and reporting requirements (if different from the referenced MOU). If the additional funds are the result of project delays or the organization's inability to meet the original deliverables noted in the existing MOU, we recommend that Management specifically state that the additional funds are being provided to support a continuation of the deliverables in the original MOU and that the	Yes.	Agree. When amendments/ addendums are generated to provide additional funds, Management will specifically note the deliverables and responsibilities associated with the additional funds, inclusive of reporting requirements. If the additional funds result from project delays, or the organizations inability to meet the original deliverables of the existing MOU, Management will state as such and note that the deliverables have not been achieved.	October 2013	Internal Audit accepts Management's response.

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
		noted deliverables have not been achieved.				
<p>Observation No. 7</p> <p>Audit Issues Raised by OAD</p> <p>During our review of the financial analysis conducted, we identified three instances (15% of the sample) where OAD had raised issues with the audit; however, there was not any documentation to support Management's acknowledgement of the issues raised or of the decision to accept the risk raised and proceed with the grant award in spite of the issues raised.</p> <p>See examples of the issues raised below in the detailed observations and recommendation section.</p> <p>Risk Rating: Low</p>	Yes.	<p>Recommendation No. 7</p> <p>Acknowledgement of and Actions Taken based on OAD Review</p> <p>We recommend that for future grants to non-network members Management should document acknowledgement of the OAD financial analysis responses, any actions taken as a result of the review conducted by OAD to respond or mitigate risks identified, or acceptance of the risk presented in the analysis with justification prior to providing grant funds.</p>	Yes.	Management agrees that the grant files should include management's acknowledgment of issues raised and any exceptions provided.	October 2013	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.

Management Response to Audit Review of the Non-Network MOU/Grant Award Process		
# Of Responses	Response	Recommendation #
7	Agreement with the recommendation(s)	1, 2, 3, 4, 5, 6, 7
0	Disagreement with the recommendation(s)	N/A

Background

NeighborWorks America provides grants, services and technical assistance to its local Network of NeighborWorks organizations (NWO's). The Corporation also establishes Memorandum of Understanding (MOU) agreements with non-network members for a variety of reasons:

- To leverage the expertise of the non-network organization to expand NeighborWorks capacity;
- To provide services to areas of need where the NeighborWorks network presence is limited;
- To expand the capacity of non network organizations to prepare the organization to join the NeighborWorks network; and
- To increase NeighborWorks visibility in the field of affordable housing and community development.

MOU agreements are executed throughout the organization at a Corporate (i.e., Office of the CEO/COO) and Divisional (i.e., Field Operations, National Initiatives Applied Research (NIAR), and Training) level. MOU agreements may result in the issuance of a grant award (including monetary and training components). However, MOUs may be non-monetary and focus solely on leveraging the relationship and area of expertise of NeighborWorks and a contracted party to achieve an intended goal.

NeighborWorks has the following National MOU agreements – 1) Habitat for Humanity, 2) Rebuilding Together & National Community Stabilization Trust, 3) Excellence in Governance, and 4) Cornerstone Partnership. These National MOU agreements support a partnership between NeighborWorks and the applicable organizations and are non monetary; however, they may include a training award component.

Grant Awards (ranging from \$500 to \$500,000) may also be issued to non-network organizations to support the objective(s) of an established MOU or grant award. The process to award grant awards to non-network organizations is outlined in the NeighborWorks America Grant Procedures², see Appendix A.

Total grant awards to non-network organizations were \$4,120,066 in FY 2011 and \$6,014,065 in FY 2012 (per information obtained from GrantWorks³).

² Approved by the COO on July 10, 2012.

³ GrantWorks is NeighborWorks® America's online grant application management system.

Objective

The objective of the audit was to:

- Review and understand the policies, procedures, and processes in place over MOU agreements and Grant Awards issued to non-network organizations;
- Obtain assurance that NeighborWorks was compliant with the policies, procedures, and processes established;
- Review and obtain an understanding of the monitoring controls in place to ensure non-network MOU/Grant agreement objectives were being met and requirements were adhered to; and
- Obtain assurance that monitoring controls were operating as designed and effectively.

Scope and Scope Limitation

Internal Audit notes that a Memorandum of Understanding (MOU) will not always be drawn up and executed to support grant awards to non network organizations because depending of the nature, scope, or purpose of funds an MOU may not be the most efficient and effective document to evidence the aforementioned information. Therefore, for the purpose of identifying the population for this review, Internal Audit obtained a listing of all grant awards issued to non-network organizations in FY 2011 and FY 2012 as noted in GrantWorks⁴.

Internal Audit did not conduct any testing over non-monetary MOUs (i.e., MOUs established to support a partnership where there have not been grant awards distributed), nor did Internal Audit conduct testing over the training award component of an MOU agreement/Grant Award because Scholarship Administrations (Training Awards) is a separate audible entity for NeighborWorks America. In addition, Internal Audit did not conduct testing over the financial accounting for Non-Network grant awards because the financial statement audits covering the period of review had been conducted by the external auditors BDO and there were not any issues noted over grant award accounting as a result of the audit conducted.

Methodology

Internal Audit downloaded an excel file from GrantWorks of FY 2011 and FY 2012 grant awards to non-network MOUs and loaded the data into ACL⁵. Internal Audit notes the population of grant awards (and subsequent sample) included grant awards initiated by

⁴ GrantWorks is a grant administration application used by NeighborWorks. For the purpose of this review GrantWorks is used to inventory the grant awards issued to non-network organizations and capture approval by the Director of Field Operations.

⁵ ACL, formerly known as Audit Command Language is an audit/data analysis software.

Field Operations, National Initiatives Applied Research (NIAR), and the Offices of the CEO/COO.

Using ACL, Internal Audit stratified the population of awards into District/Regions (as noted from GrantWorks) to assess the allocation of awards based on amount and geography. Using ACL, we randomly selected a sample of 20 non-network grant awards issued in FY 2011 and FY 2012. See the sample of selected grant awards to non-network organizations at Appendix B.

Internal Audit examined documentation:

- To evaluate the processes and procedures to issue grant awards to non-network organizations;
- To validate that non-network grant awards were executed in accordance with the established grant procedures for non-network organizations;
- To validate that there were defined deliverables and/or expectations established for the respective non-network grant award;
- To obtain assurance that reporting requirements had been established; and
- To validate that established reporting requirements were being fulfilled.

Observations and Recommendations

The observations and recommendations below are a result of the testing performed over the 20 grant awards selected. Observations/Recommendation #1 - #3 are general observations that relate to the overall governance of the Non-Network MOU Grant Award process and are noted to aid Management with improving the established process. Observations #4 - #8 are the result of the specific audit procedures conducted over the selection of non-network grant awards.

Observation No. 1 – Absence of a Standard Right to Audit Clause

In order to further emphasize to the Grantee that the Corporation would be obtaining assurance that funds provided by the Grant are used in accordance with the terms and provisions of the grant a standard “Right to Audit Clause” is usually a best practice. Per review of the grant agreements and the MOUs selected 19 (95% of the sample selected) did not include a “Right to Audit” or “Monitoring of the Grant Award” clause. A right to audit clause would give NeighborWorks the right to examine the records of a Grantee (non-network member) in the occurrence of a risk event and also the ability to monitor and evaluate the use of NeighborWorks funds within the organization with proper notice.

Recommendation No. 1 – Revision to the Non Network Organization Grant Agreement Template – Right to Audit Clause

We recommend Management revise the standard non-network Grant Agreement to include a Right to Audit Clause. The clause should outline acceptable notification requirements that would provide NeighborWorks with access to the non-network organization’s records and require the cooperation of its staff in order to monitor and evaluate the use of the funds provided from NeighborWorks.

Observation No. 2 – A-133 Audit Report Submission/Review Requirement

A-133 audits are compliance-based audits of Federal programs required for organizations that receive/expend federal funds in excess of \$500,000 in a given year. Many of the non-network organizations NeighborWorks partners with are required to have A-133 audits performed; however, the reports are currently not required to be submitted and subsequently reviewed to be eligible for NeighborWorks non-network expendable grants. The grant award process for non-network organizations could be further enhanced by requiring applicable non-network organizations to submit their A-133 report results for review, in addition to their financial statement audit reports. By providing this documentation, it would provide additional assurance that the non-network organization has an adequate internal control structure and is fiscally responsible in relation to other federal awards.

Recommendation No. 2 – A-133 Report Submission/Review Requirement

We recommend updates to the Grant Award process to require applicable non-network organizations (e.g., organizations receiving/expending federal funds in excess of \$500,000

in a year) to submit A-133 reports (covering the same period of the financial audit reports). Upon receipt of the A-133 reports we recommend OAD review the reports to assess whether any findings exist that may increase the risk exposure to NeighborWorks.

Observation No. 3 – Reporting Requirements/Deliverables in Standard Grant Agreements

We noted that in situations where reporting requirements are not specifically outlined in the MOU or grant agreement, the default reporting requirements included in the Grant Agreement are as follows:

- “*Non Network Organization Name*” shall submit a report to NeighborWorks America on the use and accomplishments of these unrestricted expendable grant funds within forty-five (45) days following the full expenditure of the grant funds or termination of the grant.”
- “The expendable grant funds being provided herein shall be spent within two years of the date of execution of this Grant Agreement.”

Based on our review, we identified seven grant awards initiated by Field Operations and NIAR (35% of the sample) to non-network organizations where the default reporting requirements noted above were applicable (i.e. included in the grant agreement). Internal Audit notes the time that is potentially allowed to pass between the distribution of the award and the required execution of the formal reporting requirements is too long a lag time as it reduces an evaluator’s ability to assess whether or not the intended objectives/deliverables are being achieved or on track to being achieved. The time lag of two years also does not provide enough advance notice to provide for any proactive action by way of a corrective action.

Recommendation No. 3 – Revision to the Standard Non-Network Grant Agreement – Reporting Requirements/Deliverables

We recommend updates to the standard non-network grant agreement template to require periodic/interim reporting during the grant award period. We recommend requiring formal reports on the status/accomplishments/achieved to date on at least a semiannual basis (i.e., once every 6 months), as well as a final report upon the full expenditure of funds/fulfillment of the purpose of funds.

Observation No. 4 – Financial Audit Reviews

The current Grant Award process requires an audit review of the non-network organization’s most recent financial statement audit. Unlike network organization financial audit requirements, the parameters have not been established to define “most recent” (i.e., within 6 months of the fiscal year end). Based on our review, we identified four grant awards initiated by Field Operations and NIAR (20% of the sample) to non-network organizations that were supported by a financial analysis of financial statements in excess of 12 months old. Internal Audit notes due to the significant time lag the relevance of the financial information presented could be potentially outdated and not useful for making a financial determination as to risk exposure.

In addition, Internal Audit notes there were two occurrences with grant awards to non-network organizations initiated by Field Operations and Training (10% of the sample) in which the OAD financial analysis was not performed and the documentation supporting omission was not sufficient. Internal Audit notes Management should consider more structured procedures and requirements over non-network organization exceptions considering the level of oversight is limited due to the organization not being part of the NeighborWorks network and as a result are not subject to oversight activities (i.e., onsite (PROMPT)/offsite (PRO) reviews, relationship managers, etc.).

Recommendation No. 4 – Financial Audit Reviews

We recommend Management establish parameters to define “most recent audit report” and those parameters at a minimum mimic the parameters established for network organizations (i.e., within six months of the fiscal year end). In the event that audit reports are not received in a timely manner, we recommend the Director of Field Operations document a valid business case/rationale to provide organizations with an exception to support either the acceptance of an older audit report outside the established/defined parameters or the omission of an audit report.

Observation No. 5 - The Purpose of Funds Description needs to be more specific

The Memorandum of Understanding provides specific details of the purpose of the partnership between NeighborWorks America, the non-network organization and the use of funds. In the absence of a MOU, the “Purpose of Funds” section of the Grant agreement typically provides information/details of the partnership including how the funds should be used to accomplish defined deliverables. Based on the review of the non-network organizational grant agreements, Internal Audit noted four instances of grant awards initiated by Field Operations and/or NIAR (20% of sample) where the “Purpose of Funds” description could have been more specific in order to make it easier to understand the intended use of the grant award and subsequently evaluate if the objectives were met. Examples of Purpose of Funds include scripts such as the following:

- “...support capacity building activities”
- “...support internship program”

Per further inquiry with Management, Internal Audit noted that details may have been communicated in a different manner; however, it was not always formally documented with the specific award. Internal Audit notes formal documentation of expected deliverables, objectives, or outcomes establishes accountability for the funds distributed and a clear audit trail.

Recommendation No. 5 – Formal Documentation of Purpose of Funds

We recommend Management consistently and explicitly document expected deliverables, objectives, or outcomes to be achieved with the funds provided to the non-network organizations with more specificity. Internal Audit notes this may be documented formally in the Grant Agreement, Memorandum of Understanding, Proposal submitted to

NeighborWorks, or as a referenced attachment to the Grant Agreement (i.e., Description of Activities to be Undertaken, Objectives to be Achieved, etc.). Also, if documented in a document other than the Grant Agreement, we recommend accurately referencing the other document(s) in the Grant Agreement.

Observation No. 6 - Outdated/Invalid MOU Agreements

There were four grant awards initiated by Field Operations (20% of the sample) to non-network organizations selected where the related MOU or supporting amendments were not current or clearly aligned with the grant award selected (i.e., the referenced MOU included projects that have likely been completed and/or projects with expected deliverables due for earlier time periods - 2009/2010). In addition, of the four MOUs noted, two were not accurately referenced in the Grant Agreement (i.e., based on Internal Audit follow up it was determined that an MOU existed to support the grant agreement; however, the MOU was not a referenced in the grant agreement). Based on this observation, the intended purpose and expected deliverable/outcomes of the selected grant awards were not clear. Furthermore, the objectives of the grant awards were not clearly aligned with the expected deliverables which made it difficult to determine if the grant objectives were achieved and as result if the funds were expended in accordance with Management expectations. Based on follow up with Management, Internal Audit notes that the amendments/addendums generated were designed to continue the existing MOU in lieu of generating a new MOU; however, the amendments/addendums created were generic in nature and did not provide any information about the revised deliverables/expectations considering the existing MOUs included time sensitive and project specific deliverables.

Recommendation No. 6 – Amendments/Addendums to MOU Agreements

We recommend when Management generates amendments/addendums to existing MOUs the purpose of the additional funds provided are specifically noted including deliverables and responsibilities, the term of the additional funds provided under the addendum/amendment, and reporting requirements (if different from the referenced MOU). If the additional funds are the result of project delays or the organization's inability to meet the original deliverables noted in the existing MOU, we recommend that Management specifically state that the additional funds are being provided to support the deliverables in the original MOU and that the noted deliverables have not been achieved.

Observation No. 7 – Audit Issues Raised by OAD

All non-network organizations seeking grant awards in excess of \$5,000 are required to submit the most recently issued audit report for review by OAD. OAD then conducts a financial analysis of the audited financial statements and provides it to the requestor and/or Field Operations. During our review of the financial analysis conducted for the selected non-network grant awards we identified three instances of grant awards initiated by Field Operations and NIAR (15% of the sample) where OAD had raised issues with the audit; however, there was not any documentation to support Management acknowledgement of the issues raised, or decision to proceed with the grant award in spite of the issues raised. Examples of the issues raised included the following:

- “We have not received the A-133 report...An A-133 report was probably issued and the absence of that report hinders evaluation of any potential financial management issues.”
- “The audit report deviated substantially from the standard language of an unqualified report, which raised concerns about the validity of the attestation. Therefore it would be prudent to consider any other information known about this organization along with these results for the purpose of making funding decisions. “
- “The Audit Opinion was not signed and the opinion letter was not on letterhead...Absent knowledge of the identity of the auditor, the audit should be considered with less reliability than if the auditor were well known...A signed opinion letter identifying the auditor should be obtained. “

Recommendation No. 7 – Acknowledgement of and Actions Taken based on OAD Review

We recommend that for future grants to non-network members Management should document acknowledgement of the OAD financial analysis responses, any actions taken as a result of the review conducted by OAD to respond or mitigate risks identified, or acceptance of the risk presented in the analysis with justification prior to providing grant funds.

Conclusion

The non-network MOU/grant awards process is mutually beneficial to NeighborWorks and the applicable organization as it enables all engaged to leverage each other’s industry strengths and expertise to increase the impact in areas of operation. The current grant procedures and processes in place serve as a foundation to provide assurance that awards are made to non-network organizations that are fiscally responsible and are appropriately authorized. Internal Audit notes that incorporating the recommendations noted within this report will further enhance the process to provide assurance that non network organizations are adequately evaluated based on risk exposure prior to the issuance of the grant award and to provide assurance that adequate contractual terms are incorporated into the MOU and/or grant agreement in order to establish purpose and accountability for the grant funds.

APPENDIX A – NeighborWorks America Grant Procedures

NeighborWorks America Grant Procedures (Approved by COO on July 7/10/2012)

Section D

D. Grants for non-NeighborWorks® organizations

In an effort to exercise greater control over the disbursement of NeighborWorks America funds to non-affiliated organizations, starting in FY 2007 grants for non-NWOs that exceed \$5,000 are subject to a uniform audit review process, as follows:

- Prior to requesting grant approval, the Program Manager will ask the non-NWO to submit a copy of their most recent audit. The Program Manager is the individual who requests the grant and who has the ongoing relationship with the organization for which the grant is proposed.
- Non-network audits should consist of the following financial statements and disclosures in order to ensure that OAD Financial Analysts can perform an effective financial analysis:
 1. Auditor's Report Opinion (Reports may include unqualified, qualified, adverse or disclaimer of opinion);
 2. Statement of Financial Condition;
 3. Statement of Activities;
 4. Statement of Cash Flow;
 5. Related Notes to the Financial Statements.
- OAD will analyze the audit in order to assess financial risk and assure compliance with established non-profit industry and accounting guidelines.
- OAD Financial Analysts will review each conforming non-network organization audit report and create a written report commenting on the following criteria within fifteen (15) business days of receipt of audit:
 1. Auditor's Report Opinion;
 2. Statement of Financial Position (Analytical Review with relevant Ratios)
 3. Statement of Activities (Analytical Review and relevant comments)
 4. Statement of Cash Flows (Analytical Review and relevant comments)
 5. Conclusion(s) about overall Financial Health, Liquidity and Solvency.
- The DSM or Program Assistant, Grants Manager and Field Ops Deputy Director will receive a copy of the completed OAD financial analysis or will be notified of the non network organization's non-compliance with the financial report requirements.

- If OAD's findings indicate that the financial standing of the organization is adequate, the grant may be submitted for formal approval according to the established budget authority limits.
- After approval the grant is processed according to the established procedures, which require the signature of a non-NWO *Grant Agreement* prior to the disbursement of funds.
- Non-conforming audits or any lesser products (including but not limited to compilations, reviews, unaudited financial exhibits, spreadsheets, and other miscellaneous materials) will be considered non-compliant with NeighborWorks America's financial report submission requirement for grants. An organization's consideration for NeighborWorks® America grants will be deferred until financial statements containing the requisite statements and note disclosures are submitted by the non-network grant candidate.
- If the non-network organization is unable to provide the required financial statements, the Program Manager requesting the grant must submit an audit exception request to the Director of Field Operations. If granted, the Director of Field Operations will document the exception approval in writing.
- If the organization has received prior funds from NeighborWorks® America, the grant will be contingent on satisfactorily completing the grant reporting conditions stipulated for said grant and satisfactorily completing the report on the use and accomplishments of the expendable funds.
- Non-network organizations receiving grants under \$5,000 will not be required to submit recent audits for review. These organizations will be required to sign a non-NWO Grant Agreement (Attachment O) and comply with the reporting requirement stipulated in the Grant Agreement, as noted below.

In terms of reporting requirements for non-affiliated organization, the non-NWO *Grant Agreement* includes the following condition:

[Name of organization] shall submit a report to NeighborWorks® America on the use and accomplishments of these unrestricted expendable grant funds within forty-five (45) days following the full expenditure of the grant funds or the termination of the grant.

The final report shall be submitted directly to the Program Measurement Management Consultant in the respective district where the organization is located for review. The District will then forward the report to the Grants Unit in Washington, D.C. for filing. Files for non-affiliated grants to organizations would be maintained by the Grants unit within Field Operations.

APPENDIX B – Non Network MOU/Grant Awards Sample Selection

Fiscal Year	District	PCODE	Organization Name	Final Award	Date Submitted
2011	Great Lakes	9772	Indianapolis Neighborhood Housing Partnership	60,000.00	7/14/2011
2012	New England	9504	President and Fellows of Harvard College	416,000.00	8/28/2012
2012	New England	9651	ROC USA, LLC	100,000.00	04/24/2012
2012	New England	5054	HOUSING PARTNERSHIP NETWORK	180,000.00	9/24/2012
2012	New England	9505	Massachusetts Association of Community Development Corporations	10,000.00	3/1/2012
2012	North Central	9546	Homeownership Preservation Foundation	400,000.00	9/13/2012
2011	Northeast	9539	Banner Neighborhoods Community Corporation	85,000.00	9/16/2011
2011	Northeast	9537	Corporation for Enterprise Development	150,000.00	8/1/2011
2011	Northeast	9739	St. Nick's Alliance	75,000.00	9/21/2011
2011	Northeast	9647	City First Enterprises, Inc.	70,000.00	7/13/2011
2011	Northeast	9771	New York Mortgage Coalition, Inc.	35,000.00	6/9/2011
2012	Northeast	9525	National NeighborWorks Association	200,000.00	9/25/2012
2012	Northeast	5053	HOMEFREE - U S A	10,000.00	6/12/2012
2011	Pacific	9585	California Coalition for Rural Housing	50,000.00	5/19/2011
2011	Southern	9744	Make it Right Foundation	100,000.00	8/1/2011
2011	Southern	9550	Gulf Coast Housing Partnership, Inc.	300,000.00	6/15/2011
2011	Southern	9609	Hope Community Development Agency	25,000.00	6/16/2011
2012	Southern	9684	New Orleans Neighborhood Development Collaborative	100,000.00	4/27/2012
2012	Southern	9634	Preservation Alliance of New Orleans Inc.	100,000.00	5/7/2012
2012	Southern	9775	Neighborhood Planning and Community Development Network	50,000.00	4/27/2012
Total Sample Selection				2,516,000.00	
Total Population				10,134,131.00	
Coverage					25%

