

Internal Audit Department
NeighborWorks® America

Audit Review of the Neighborhood/City LIFT Program

Project Number: NI.LIFT.2014

**Audit Review of the Neighborhood/City LIFT
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July 6, 2014

To: NeighborWorks America Audit Committee

Subject: Audit Review of the Neighborhood/City LIFT Program

Please find enclosed the final audit report of the Neighborhood/City LIFT Program. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: C. Wehrwein
T. Bloom
J. Bryson
P. Carey
J. Fekade-Sellassie
M. Rodriguez

Function Responsibility and Internal Control Assessment
Audit Review of the Neighborhood/City LIFT Program

Business Function Responsibility	Report Date	Period Covered
National Initiatives	July 6, 2014	as of March 2014
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations	Generally Effective¹	
Reliability of Financial Reporting	Generally Effective	
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 – Omitted Warrants and Representations from the MOUs with NWOs</p> <p>Based on our review of the agreement between NeighborWorks America and the NeighborWorks Organizations (NWO), Internal Audit notes the following were omitted from the agreement:</p> <ul style="list-style-type: none"> • Business Continuity Plan • Budget – Investment of down payment assistance funds and interest earned on DPA funds) <p>Risk Rating: (b) (5)</p>	<p align="center">Yes</p>	<p>Recommendation No. 1 – Supplemental Communications to LIFT participating Network Organizations</p> <p>Internal Audit recommends Management generate and distribute supplemental communications for the participating NWOs that include the omitted content as noted above.</p>	<p align="center">Yes</p>	<p>The grant agreements going forward will include the following specifications:</p> <ul style="list-style-type: none"> • All DAP funds must be placed in an interest earning account • Each organization must provide evidence of a Business Continuity Plan 	<p>August 30, 2014 for new sites.to have included in the grant agreement</p> <p>Will work with existing sites to ensure compliance through October 30, 2014</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. 2 – Reporting of Recaptured Funds Per review of the monthly (March 2014) Impact and Performance Report for Chicago, Internal Audit notes that one loan had been repaid; however, the amount of remaining down payment funds balance did not account for the repaid loan. Risk Rating: (b) (5)</p>	<p>Yes</p>	<p>Recommendation No. 2 – Management Reporting of Recaptured Funds Internal Audit notes that the current grant agreements do not require specific reporting on recaptured funds; however, Internal Audit notes that NeighborWorks is held accountable to ensuring that those funds are used as borrower assistance grants within one year of recapture. As such, Internal Audit recommends Management develop and implement management level reports to log recapture(repaid) loan information, which should include the date of recapture, the amount recaptured, the amount available for borrower assistance grants, and the amount used for borrower assistance grants.</p>	<p>Yes</p>	<p>The LIFT Team will reach out to any organization that is showing repayment of funds on the monthly performance report and obtain information on the date of repayment, amount repaid and available for borrower assistance, and the amount relent.</p> <p>A log will be maintained that documents this information.</p> <p>While we do not expect there to be high volume on the repayments, each site has the potential to have a small number that do so we will continue to monitor this through the life of the contracts.</p>	<p>August 30, 2014</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. 3 – Semiannual Reports to Wells Fargo</p> <p>Per review of the semiannual report submitted to Wells Fargo for the period covering September 2013 – February 2014, Internal Audit noted that the production information presented in the narrative section for closed loans was not accurate. The amount presented for closed loans represented closed loans as of March 2014 instead of February 2014.</p> <p>Risk Rating: (b) (5)</p>	Yes	<p>Recommendation No. 3 – Review of semiannual report prior to Distribution</p> <p>Internal Audit notes that the reports are generated by the Development Department; therefore, Internal Audit recommends the LIFT Management team conduct a detailed review of the external reports prior to submission to ensure the information presented agrees to the supporting documentation for the correct reporting period.</p>	Yes	The LIFT Team will proactively reach out to the Development Division that creates the Semi-Annual report to ensure that the report dates and data coincide correctly. LIFT will review all reports before they are submitted to Wells.	September 3, 2014	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 Neighborhood/City LIFT Program		
# Of Responses	Response	Recommendation #
3	Agreement with the recommendation(s)	1, 2, 3
0	Disagreement with the recommendation(s)	N/A

Background

In February 2012, NeighborWorks America entered into a grant agreement with Wells Fargo Foundation to aid Wells Fargo with advancing recovery efforts in cities most impacted by housing crisis via the Neighborhood LIFT program. Neighborhood LIFT is a program that offers certain down payment assistance products designed to encourage home ownership. The Neighborhood LIFT program resulted in a launch of down payment assistance programs in eleven (11) geographic markets identified by Wells Fargo.

In October 2012 the Neighborhood LIFT program expanded to add eight (8) additional geographic markets to form the City LIFT program. The City LIFT program is also a down payment assistance program; however, it was derived specifically to satisfy Wells Fargo's obligations under the Consent Order with the United States Government.

Also, in November 2013 NeighborWorks entered into a third grant agreement with Wells Fargo to further expand its efforts to increase homeownership with the Neighborhood LIFT 2.0 down payment assistance program in at least 10 additional markets to be identified by Wells Fargo.

Under each of the grant agreements, Wells Fargo provided the down payment assistance funds and NeighborWorks administered the funds in accordance with the grant agreement. Under the grant agreements, NeighborWorks entered into Memorandum of Understandings (MOUs) with local NeighborWorks Network Organizations within each respective market and the respective NWO was responsible for issuing the borrower assistance grants in accordance with the Down Payment Program Requirements and Parameters. See Appendix A – Key Down Payment Assistance Program Requirements and Parameters.

As of March 2014, the LIFT programs have launched in 23 different geographic markets across the continental United States, generating more than 6,300 new homeowners and down payment assistance of approximately \$111,742,000.

Objectives

The objective of this audit was to:

- Obtain assurance that NeighborWorks is satisfying the terms and obligations of the grant agreement with Wells Fargo/Wells Fargo Foundation.
- Obtain assurance that adequate controls are in place to support program requirement obligations.

Scope and Scope Limitation

The scope of this review included the following:

- Grant Agreements between NeighborWorks America and Wells Fargo;
- Memorandum of Understandings (MOU) between NeighborWorks America and the respective Network Organizations;
- City Addendums and Budgets; and

- Reports developed and distributed for management and external stakeholders.

Internal Audit notes that due to the evolution of the program, detail testing was limited to the City LIFT and Neighborhood LIFT 2.0 grant agreement and related activities. Additionally, Internal Audit notes that there was not any testing performed over expenses charged to this program due to an upcoming accounts payable audit for which these transactions will be subject to review at that time.

Audit Methodology

Internal Audit began this review with the Introductory Meeting which was held on March 5, 2014. In order to obtain a better understanding of the program guidelines and requirements, Internal Audit developed a planning questionnaire and distributed to the LIFT program Management team. Internal Audit also obtained a copy of the grant agreement for the City LIFT and Neighborhood LIFT 2.0 down payment assistance programs and summarized our understanding of key components of the program.

Internal Audit judgmentally selected a sample of four launch locations between the two programs – New York/New Jersey, Chicago, IL; Portland, OR; and Dallas, TX. For each location, selected Internal Audit performed the following:

- Requested and obtained the respective Memorandum of Understanding (MOU), City Addendum/Budget, and monthly reports;
- Reviewed the MOU to ensure that the required warrants and representations had been explicitly included and ensure that the MOU had been timely executed by the appropriate parties;
- Reviewed the City Addendum to ensure the documents were timely executed by the appropriate signatories and were aligned with the respective grant agreement and MOU;
- Reviewed PeopleSoft disbursement data to obtain assurance that disbursements made to the participating NWOs was aligned with the terms of the MOU; and
- Reviewed the monthly Impact and Performance Reports and semiannual reports to Well Fargo/Department of Justice to ensure the report contents agreed to source documentation.

Internal Audit also reviewed the compliance program procedures planned to be implemented in the near future to evaluate the NWO's compliance with the LIFT program guidelines.

Observations and Recommendations

Observation No.1 – Omitted Warrants and Representations from MOUs with NWOs

The Grant Agreement between NeighborWorks and Wells Fargo states that NeighborWorks agrees that it will obtain written, executed, and enforceable agreements with each NWO, including representations and warranties to ensure overall compliance with the agreement. In addition, the full scope of terms and obligations of the MOU with NeighborWorks should be incorporated in each agreement with the NWOs. Based on our review of each agreement between NeighborWorks America and the NWOs, Internal Audit notes the following were omitted from the agreement:

- Business Continuity Plan
- Budget – Investment of down payment assistance funds and interest earned on DPA funds)

Internal Audit notes that the omission of components of the grant agreement for which both NeighborWorks and the NWOs are responsible for compliance may impact the organizations' ability to meet the expectations and deliverables as designed by the grantee (Wells Fargo).

Recommendation No. 1 – Supplemental Communications to LIFT participating Network Organizations

Internal Audit recommends Management generate and distribute supplemental communications for the participating NWOs that include the omitted content as noted above.

Observation No. 2 – Reporting of Recaptured Funds

Internal Audit notes that the Agreement between NeighborWorks and Wells Fargo state that recaptured (repaid) fund should be used as borrower assistance grants with one year of recapture. Per review of the monthly (March 2014) Impact and Performance Report for Chicago, Internal Audit notes that one loan had been repaid; however, the down payment funds remaining amount did not reflect the repaid loan. Failure to formally document recaptured loans does not provide an audit trail (for tracking purposes) to support how recaptured funds are eventually treated.

Recommendation No. 2 – Management Reporting of Recaptured Funds

Internal Audit acknowledges that the current grant agreements do not require specific reporting on recaptured funds; however, Internal Audit notes that NeighborWorks is held accountable to ensuring that those funds are used as borrower assistance grants within one year of recapture. As such, Internal Audit recommends Management develop and implement management level reports to document recapture(repaid) loan information, which should include the date of recapture, the amount recaptured, the amount available for borrower assistance grants, and the amount used for borrower assistance grants.

Observation No. 3 – Semiannual Reports to Wells Fargo

Per review of the semiannual report submitted to Wells Fargo for the period covering September 2013 – February 2014, Internal Audit noted that the production information presented in the narrative section for closed loans was not accurate. The amount presented for closed loans represented closed loans as of March 2014 instead of February 2014. Reports should be accurate and reflect the time periods for which they are reported.

Recommendation No. 3 – Review of semiannual report prior to Distribution

Internal Audit notes that the reports are generated by the Development Department; therefore, Internal Audit recommends as part of a quality control feature, the LIFT Management team conduct a detailed review of the external reports prior to submission to ensure the information presented agrees to the supporting documentation for the correct reporting period.

Conclusion

Internal Audit notes that NeighborWorks' partnership with Wells Fargo to participate in the LIFT programs has aided in increasing homeownership within geographically challenged and diverse markets. The results of the review indicate that Management is working diligently and responsibly to adhere to the LIFT program guidelines as presented by Wells Fargo and working alongside the NWOs to obtain assurance that LIFT program objectives and guidelines are met. Internal Audit notes that the implementation of the recommendations as noted above will further enhance the program. Thanks again to the NeighborWorks LIFT team for their cooperation during this review.

APPENDIX A – Key Down Payment Assistance Program Requirements and Parameters

KEY NEIGHBORHOOD\CITY LIFT PRODUCT GUIDELINES	
<u>Topic</u>	<u>Details</u>
LIFT Product	0% Interest grant that is forgivable 20% each year for 5 years Prorated balance due is repayable if the property is sold, refinanced, transfer of title or foreclosed within the first 5 year.
Amount of Down Payment Assistance	\$15,000 or \$30,000 (depends on the geographic market)
Homebuyer Education Requirements	All homebuyers must have 8 hours pre-purchase education and participation must be evidenced by an acceptable completion certificate. Must be complete before closing and no more than 12 months prior to closing. Counseling Agency must be HUD approved and have adopted the National Industry Standards for Homeownership Education and Counseling.
Occupancy Types	Eligible Owner Occupied Principal Residence only Ineligible Second/Vacation Homes Investment Property
Income Restrictions	FHA Transactions - up to 115% of Area Median Income (adjusted for household size) All Others - up to 120% Area Median Income (adjusted for household size)
Allowable Property Types	Eligible Single Family 2 - 4 unit Condominium Townhome PUD Co-op Land Trust Ineligible Manufactured Homes Modular Homes Mixed Use (unless permissible under FHA 203(k) program)
Maximum Sales Price	No restrictions - Not applicable to LIFT

<p>Eligible Loans</p>	<p><u>Eligible</u> Fannie Mae, Freddie Mac, FHA (including 203k), VA, Conventional Renovation, Conventional and other CRA affordable lending programs, USDA Rural Development fixed financing</p> <p><u>Ineligible</u> Adjustable Rate Mortgages Negative Amortization Terms in excess of 30 yrs. Buy Downs Balloons</p>
<p>Allowable Transaction Types</p>	<p><u>Purchases</u> New & Existing Homes</p> <p><u>Refinances</u>(lower rate or borrower death) cash back not allowed</p> <p>NOTE: Maximum loan term - 30 year</p>
<p>Short Sales and Real Estate Owned Restrictions</p>	<p><u>Short Sales</u> LIFT funds may be used in connection with financing a WF short sale as long as WF is not the first mortgage lender.</p> <p><u>REO</u> LIFT funds cannot be used for purchasing a WF REO Property</p>
<p>Eligible Borrowers</p>	<p><u>Eligible</u> First Time/Ready Again Homebuyers Living Trusts</p>
<p>Ineligible Borrowers</p>	<p><u>Ineligible</u> Investors Non Occupant co-borrowers/co-signors Independent Tax Identification Number borrower transactions</p>
<p>Previous Ownership Restrictions</p>	<p>Cannot have ownership interests remaining in another residential property.</p>