

Internal Audit Department  
NeighborWorks® America

# Audit Review of NFMC Sub-Grantee Monitoring

Project Number: NFMC.SubM.2011

**Audit Review of NFMC Sub-Grantee Monitoring  
Internal Audit Department Project # NFMC.SubM.2011**

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January 19, 2012

To: NeighborWorks America Audit Committee

**Subject: Audit Review of the NFMC Sub-Grantee Monitoring  
Internal Audit Department Project NFMC.SubM.2011**

Please find enclosed the final audit review report of NFMC Sub-Grantee Monitoring.

Please contact me with any questions you might have. Thank you.

Frederick Udochi  
Director of Internal Audit

Attachment

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# Executive Summary

## Audit Review of NFMC Sub-Grantee Monitoring

<b>Business Function and Responsibility</b>	<b>Report Date</b>	<b>Period Covered</b>
NFMC Project Team	January 19, 2012	Round Four NFMC Funding

### **Assessment of Internal Control Structure**

Effectiveness and Efficiency of Operations	<i>Generally Effective<sup>1</sup></i>
Reliability of Reporting	<i>Not Applicable</i>
Compliance with Applicable Laws and Regulations	<i>Not Applicable</i>

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

<sup>1</sup> **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.

**Summary of Observations and Recommendations<sup>2</sup>:**

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	Internal Audit Comments on Management Response
<p><b>Observation No. 1</b></p> <p>While NFMCC Management has outlined NFMCC program requirements in the Funding Announcement, Grant Agreement, and Default and Remedy Policy, it has not prescribed how Grantees monitor their sub grantees for compliance with these requirements. Due to the limited guidance available, Grantees have interpreted and executed operational oversight inconsistently. Additionally, there were some instances where operational oversight activities were not adequate (e.g., Grantees did not establish processes and procedures to ensure its Sub-Grantees were compliant with all NFMCC</p>	<p>Yes</p>	<p>We recommend NFMCC Management establish minimum guidelines and expectations for acceptable and appropriate operational oversight activities. NFMCC Management should consider using the Grant Agreement, Funding Announcement, and the Agreed Upon Procedures used by the third party CPA firm ██████████ to establish the expectations and guidelines. These guidelines and expectations should be documented and distributed to existing Grantees, as well as included in future Funding Announcements and Grant Agreements. Further, Internal Audit suggests NFMCC Management consider developing a checklist to facilitate monitoring of the</p>	<p>Yes</p>	<p>Operational Oversight applies to HFAs and Intermediaries only and is a percentage of the award amount. In R5, the award amounts varied for these groups from a high of \$3,248,000.00 to a low of \$50,101.50, so operational oversight awards also varied, from a high of \$177,920 to a low of \$2,761.50. It is difficult to establish minimum criteria for appropriate operational oversight given this wide range. NFMCC also sees a risk in prescribing minimum standards, as it does not want to send the message that the minimum standards are all grantees need to comply with and program requirements not on the list can be ignored.</p> <p>NFMCC agrees to create a checklist, as described by IA, of <b>all</b> of the items that a grantee needs to ensure its subgrantees or branches are adhering to, per the requirements in the Funding Announcement and Grant Agreement. NFMCC</p>	<p>August 2012</p>	<p>Internal Audit accepts with Management's response.</p>

<sup>2</sup> The observations and recommendations in this section are summarized at a high level for informational purposes. To obtain a full, detailed explanation of each, please refer to the “Observations and Recommendations” section. Management’s response is directly related to the detailed observations and recommendations noted in the “Observations and Recommendations” section.

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	Internal Audit Comments on Management Response
<p>program requirements).</p> <p>Risk Rating: [REDACTED]</p>		<p>operational oversight activities Grantees perform over its Sub-Grantees.</p>		<p>recommends that instead of prescribing minimum requirements, it will give examples to grantees of ways the items in the checklist can be tested and reinforced and leave it to the grantees' discretion about how they do the testing and reinforcement (e.g., on-site or remotely, etc.). This will allow NFMC to focus on the outcomes rather than prescribing a specific process.</p> <p>Additionally, in Round 5, NFMC did ask for the first time for a document from all HFAs and Intermediaries that outlines their operational oversight activities in order to establish a baseline understanding of the variety of ways the Intermediaries and HFAs are providing operational oversight. [REDACTED] will be confirming the activities took place during their on-site reviews, and we intend to keep this procedure in future compliance monitoring and are open to improving the procedure based on findings during this round of monitoring.</p>		

**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.

<b>Management Response to Audit Review Recommendations NFMC Sub-Grantee Monitoring</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
1	Agreement with the recommendation(s)	1
	Disagreement with the recommendation(s)	

## Background

The United States Congress has appropriated approximately \$540 million (across five Rounds) to help reduce and eliminate the default and foreclosure of mortgages through the National Foreclosure Mitigation Counseling program. NeighborWorks® America was selected as the NFMC Administrator and designed the program. As Administrator, NeighborWorks has the responsibility of awarding grants, disbursing funds<sup>3</sup> to the hundreds of Grantees and (indirectly) Sub-Grantees, and of monitoring grantee compliance with the program requirements. The total grant award is structured in the following manner:

- Counseling Funds
- Program Related Support Funds
- Operational Oversight Funds

Counseling funds refers to funds awarded to Grantees solely for the purpose of providing counseling to a client through the NFMC Program. Program-Related Support funds are awarded to support direct costs associated with increasing the effectiveness and efficiency of the Grantee and its Sub-Grantees, branches, or affiliates' foreclosure counseling programs. Examples include but are not limited to establishing a triage system, outreach to delinquent clients, and group orientation and education sessions. Operational Oversight funds may be used to cover any quality control, day-to-day oversight and management of this grant award, and any improvements to systems and infrastructure required. In addition, if a Grantee does not wish to use the full percentage of Operational Oversight, it can use these funds to provide additional NFMC Counseling. Operational Oversight funds are only awarded to Intermediaries and State Housing Financing Authorities (SFHA) and are not awarded to NeighborWorks Organizations.

Beginning in Round 5, NFMC Management developed and distributed an Operational Oversight Plan document to gather information from the Grantees regarding its operational oversight/Sub-Grantee monitoring activities.

## Audit Objective

The objectives of the audit were to:

- Obtain an understanding of the NFMC requirements for the use of Operational Oversight Funds and expectations of Grantee Operational Oversight Plans;
- Verify that NFMC Grantees have appropriately designed and implemented Operational Oversight Plans for monitoring of NFMC Sub-Grantees with respect to adherence to program requirements and applicable government regulations; and

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<sup>3</sup> NeighborWorks is authorized to expend a specified percentage of the funds for administrative expenses and training for grantees.



- Assess the effectiveness of the Sub-Grantee monitoring performed by Grantees with respect to adherence to program requirements and applicable government regulations.

## Scope

The scope of the audit included:

- State Housing Financial Agencies and Intermediaries awarded NFMC funds during the Round 4 and 5 grant periods
- Operational Oversight Activities performed during Round 4

## Audit Methodology

Internal Audit obtained the following information for all Rounds 4 & 5 Grantees (excluding NeighborWorks Organizations):

- Award Amount per round
- Sub-Grantees per round

Using the information obtained, we calculated the average award per Sub-Grantee and selected all Grantees with a calculated average sub-grantee award amount greater than \$150,000. We then obtained the grant award amount awarded to each of the Grantee's Sub-Grantees and selected a sample of Sub-Grantees for each Grantee based on a weighted average calculation. Using the sample selection of Grantees and Sub-Grantees the audit methodology adopted included the following:

- Obtaining an understanding from NFMC Management on how Operational Oversight funds were to be used;
- Obtaining an understanding of the operational oversight activities implemented by a selection of Grantees; and
- Gathering documentation to support the operational activities implemented by the selection of Grantees and a selection of their Sub-Grantees.

## Observations and Recommendations

### Observation No. 1: Guidance to Grantees on Operational Oversight Activities

During the testing phase, Internal Audit requested and obtained documentation from a sample of Grantees to support the operational oversight activities in place over training, counselor file reviews, and monitoring for compliance with NFMC program requirements. Based on the documentation received and the testing performed, the Grantees were able to provide sufficient documentation to support operational oversight activities over training and counselor file reviews; however, the documentation provided to support monitoring of Sub-Grantees for compliance with NFMC program requirements was sometimes limited or nonexistent. Most (i.e., more than 60%) of the selected Grantees had some sort of framework in place for compliance monitoring of their sub-grantees; however, what each Grantee monitored varied widely from one Grantee to another. More specifically, though most Grantees tested had oversight protocols, few (i.e., less than 20%) of the sampled Grantees had designed and implemented operational oversight plans to monitor its Sub-Grantees for compliance with all of the following NFMC program requirements (NOTE: The listing below does not represent all NFMC program requirements):

- If the Sub-Grantee is not a HUD approved counseling agency, then the Grantee must ensure the Sub-Grantee meets or exceeds the standards required by HUD;
- Applicants, Grantees, and Sub-Grantees do not to charge a fee for services;
- Staff and Volunteers providing foreclosure intervention counseling shall have no conflict of interests with servicers, real estate agencies, mortgage lenders, and/or other entity that may stand to benefit from foreclosure counseling;
- No tolerance for discrimination against clients based on gender, race, color, religion, national origin, ancestry, creed, pregnancy, marital/parental status, familial status, sexual orientation, or physical/mental/emotional/learning disability; and
- Availability and accessibility of translation services for clients and documentation supporting business relationship with translation agency.

Based on the audit procedures performed, Internal Audit noted the need for NFMC Management to provide Grantees additional guidance than what currently exists on adequate operational oversight activities or a framework that would provide structure for operational oversight program activities. Without the additional guidance, the risk remains that Grantees may omit or exclude NFMC program requirements which may be considered critical to the NFMC program or repeatedly undertake oversight in the same areas.

## **Recommendation No. 1 – Minimum NFMC Operational Oversight Guidance**

We recommend NFMC Management establish minimum guidelines and expectations for acceptable and appropriate operational oversight activities. This would provide some consistency in the expectations of Grantees with respect to operational oversight activities. NFMC Management should consider using the Grant Agreement, Funding Announcement, and the Agreed Upon Procedures used by the third party CPA firm [REDACTED] to establish the expectations and guidelines. The guidelines and expectations should be documented and distributed to existing Grantees as well as included in future Funding Announcements and Grant Agreements. Further, Internal Audit suggests, NFMC Management consider developing a checklist or template to facilitate monitoring operational oversight activities the Grantees would need to perform over its Sub-Grantees.