



**To:** Ken Wade, Eileen Fitzgerald, Jeffrey Bryson and Michael Forster

**From:** Frederick Udochi

**cc:** Priscilla Vazquez and Mia Sowell

**Date:** October 14, 2010

**Subject:** Audit Review: Corporate Governance - Conflict of Interest Policies

Within the context of the 2010 Internal Audit Plan, please find below an Internal Audit report pertinent to the Conflict of Interest Policies Review. Please review and let me know if you have any comments or questions. Thank you.

**Executive Summary**

**Audit Review Corporate Governance - Conflict of Interest Policies**

**Business Function and  
Responsibility**

**Report Date**

**Period Covered:**

General Counsel and Human  
Resources

September 19, 2010

January – September 2010

**Assessment of Internal Control Structure**

Effectiveness and efficiency  
of operations  
Compliance with  
Applicable Laws and  
Regulations

*Not Applicable<sup>1</sup>.*

*Not Applicable.*

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

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<sup>1</sup> An evaluation was not made at this time since the Code of Ethical Conduct had just been revised and yet to be implemented.

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

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation <i>(Received 1/10/2011)</i>	Estimated Date of Implementation	Internal Audit Comments on Management Response
<p>1. Our review revealed an overall non-compliance rate, in the entire sample population, of 34%. The sample population consisted of: (a) new employees who joined NWA during the 2010 calendar year, which showed a 100% compliance rate and (b) employees as of December 31, 2009 which had a non-compliance rate of 73%. In these instances, we found forms not received until as late as September 2010.</p>	<p>Yes.</p>	<p>We recommend timely submission of the Form 100A to ensure that any potential conflict of interest is identified and resolved in a timely fashion. In addition we strongly urge that Human Resources implement a monitoring tool that would account for the timely receipt of completed Form 100A's from all current and active staff of the Corporation. Notifications or reminders should be sent to delinquent staff.</p>	<p>Yes.</p>	<p>Management agrees that timely submission is important. A monitoring tool does exist and staff members are reminded twice about completing and submitting their forms, after which their division director is notified. In implementing the new Code of Conduct for FY 2011, management has provided staff with a copy of the Code and notified staff that signing the Code's disclosure form must occur before on or before January 31, 2011. Names of staff members who do not sign the disclosure form or respond by January 31, 2011 will</p>	<p>FY 2011</p>	<p>Internal Audit accepts Management's response and has no further comments.</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.

				<p>go on a delinquency report that will be provided to the officers for additional follow-up. Human Resources will provide early notices to division directors to assist in ensuring compliance with the reporting requirements. Management is also preparing the first training materials for staff on the new Code.</p>		
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Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation <i>(Received 1/10/2011)</i>	Estimated Date of Implementation	Internal Audit Comments on Management Response
2. Provision should be made to review the relevance or necessity for new provisions to the Code of Ethical Conduct.	Yes.	We therefore also recommend that management consider reviewing the Code of Ethical Conduct once every two years in order to make provision for changes, modifications or the relevancy of current provisions of the Code of Ethical Conduct.	Yes.	Management agrees that periodic review of the Code of Conduct is a good practice and will review the Code at least every two years in order to make provisions for change. The general counsel's office will review the Code on an ongoing basis to recommend changes as needed.	FY 2011	Internal Audit accepts Management's response and has no further comments.

**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 Corporate Governance: Conflict of Interest</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
2	Agreement with the recommendation(s)	1, 2
0	Disagreement with the recommendation(s)	N/A

## **Background**

An effective conflict of interest policy serves a basis for policy making as well as providing guidance in daily decision making. It defines ethics goals and objectives and allows the organization to measure progress. It determines what leaders and other employees will view as important and proper. The NeighborWorks® America (NWA) Code of Conduct is an attempt to provide these guidelines.

In 2005, NeighborWorks® America (NWA) put in place an Employee Code of Conduct (currently referred to as the **Code of Ethical Conduct**) to ensure the maintenance of the highest standards of honesty, integrity, impartiality and conduct by its employees for the proper performance of NWA business and the maintenance of public confidence in its work. In June 2010, after an extensive review and revision by NWA management and the Corporate Administration Committee a revised Code of Ethical Conduct was adopted by NWA's Board of Directors. The revised policy takes effect from June 2010.

## **Objective**

The objective of the audit was to review organizational conflict of interest policies in place, with a view to assessing adequacy and consistency with industry standards and best practice. An evaluation of the design, implementation and effectiveness of the corporations conflict of interest related objective, programs and activities are embodied in the Code of Ethical Conduct.

## **Scope**

The scope of the audit covered a review of the recently revised and adopted Code of Ethical Conduct to determine that they are consistent with industry standards and best practices. Due to the recent adoption of the newly revised document we were unable to provide an opinion on the effectiveness given that the document in its current form has only been in existence for less than 3 months. We however reviewed a sample of selected employee 'code of conduct disclosure' statements.

## **Methodology**

NeighborWorks® America's Internal Audit Department (IAD) reviewed the current Code of Ethical Conduct for consistency with industry standards and randomly selected a sample of 34 NWA employees' disclosure statements for potential conflicts of interest and any subsequent resolution.

## **Summary of major changes in the Code of Ethical Conduct**

Our review of the revised policies revealed the following major changes:

- (a) Document Name Change: The document is now described as the Code of Ethical Conduct instead of the Statement of Employee Responsibilities and Conduct. The change reveals a more comprehensive code which is aligned with NWA's current values and addresses a full range of ethical dilemmas employees are likely to face.
- (b) In section 2, the following definitions were introduced :

- i. Ethics Officer
  - ii. Prohibited Source and
  - iii. Senior Manager
- (c) The provision for training for employees was made in Section 4. Training helps develop positive relationships between employees and management as they provide insights on ethical issues as well as improve employee morale. Furthermore employee retention is also positively affected by these training programs.
- (d) Section 6 saw the introduction of a whistle blower policy, which indicates that NWA is committed to complying with the Code of Ethical Conduct, and encourages a culture of transparency.
- (e) A policy on Discrimination or Harassment and workplace violence was also introduced in Section 7 and 8, respectively, which helps to create a safe and positive environment for employees.
- (f) Policies on cooperation with investigations and avoiding conflicts of interest are also one of the changes in the revised Code of Ethical Conduct.
- (g) The ‘Gift from Outside Sources’ section was also extensively expanded to include receipt of gifts from prohibited sources or due to an employee’s official position and the relevant exceptions. Also described was guidance on the limitations on the use, relevant exceptions and gifts between employees.
- (h) Section 13 on outside employment and other activities was also expanded to include the compliance requirement of incompatible activities of outside employments which includes consulting engagements or service on a board of directors or board committee, in the same and similar line of work or business as NWA or organizations that contract with or bid on contracts with NWA.
- (i) New sections that were also included are Endorsements, Use of e-mail, Voicemail and Computer Systems, Corporate Credit Cards and Social Media.
- (j) Revision of Form 100A: The employee disclosure Form 100A was renamed from Statement of Employment and Financial Interests of an Employee to **Disclosure Statement of Employment, Board Memberships and Financial Interests of an Employee**. Furthermore, the Form was revised to include the disclosure requirement of Officers, Board-appointed members and Staff members who may serve as a board or committee member of organizations in the same and similar line of work or business as NWA.

### **Audit Observations and Recommendations**

#### 1. Untimely submission of Form 100A

The Code of Ethical Conduct states that all completed Form 100A’s must be submitted to the Human Resources no later than January 31 of the relevant calendar year.



We reviewed a sample of 34 employees Form 100A's and noted that the overall sample non-compliance rate in the entire population was 34%. The sample population consisted of: (a) new employees who joined NWA during the 2010 year, which had a 100% compliance rate, and (b) employees as of December 31, 2009, which had a non-compliance rate of 73%. In these instances, we found forms not received until as late as September 2010.

***Recommendation:*** We recommend timely submission of the Form 100A to ensure that any potential conflict of interest is identified and resolved in a timely fashion. Human Resources should review all employee files to ensure that they are in receipt of a completed Form 100A and ensure that all active staff has been accounted for. In addition we strongly urge that Human Resources implement a monitoring tool that would account for the timely receipt of completed Form 100A's from all current and active staff of the Corporation. Notifications or reminders should be sent out to delinquent staff. In the absence of no response or continued delinquencies after a 30 day notice the policy calls for disciplinary action.

2. Frequency of Code of Ethical Conduct Review

Due to the uncertainties in today's environment where organizations constantly wrestle with new situations which could result from societal and regulatory changes, new technologies, and evolving standards in society; we are of the opinion that provision should be made to review the relevance or necessity for new provisions to the Code of Ethical Conduct.

***Recommendation:*** We therefore also recommend that management consider reviewing the Code of Ethical Conduct once every two years in order to make provision for changes, modifications or the relevancy of current provisions of the Code of Ethical Conduct. All substantive changes to the current Code of Ethical Conduct would be subject to the approval of the Corporation's Board.

**Conclusion**

Corporate governance has received a lot of attention recently. An appropriate tone-at-the top sensitivity coupled with a consistent message that those who serve the organization do so with fairness, honesty and integrity are necessary corporate governance practices. An acceptable code of conduct can institutionalize these practices and convey the message that integrity and ethical values of the highest standard are expected from all who serve the corporation.

However, a written document alone is not sufficient guarantee, but must be in conjunction with soft controls such as employees perceptions about leadership; reporting of misconduct or following up on a report immediately after becoming aware. Internal Audit has inquired and obtained assurance from Management of its intention to conduct an awareness program which would principally include the implementation of regular training segments for employees annually. We are however of the opinion that the current Code of Ethical Conduct which went through a rigorous vetting process before adoption by the Board meets industry best practices and provides adequate guidance for employees.