



**To: Eileen Fitzgerald, Jeff Bryson, Michael Forster, Paul Kealey**

**From: Frederick Udochi**

**cc: Robert Burns, Leila Finucane Edmonds, Michael Butchko, Thomas Deyo**

**Date: April 12, 2011**

**Subject: Audit Review of \$35M Capital Grant Rehabilitation Program**

**Enclosed is a copy of the recently concluded review of the \$35M Capital Grant Rehabilitation Program Funding to NeighborWorks® America. Please review and let me know if you have any comments or questions. Thanks.**

**Executive Summary**

**Audit Review of \$35M Capital Grant Rehabilitation Program**

<b>Business Function and Responsibility</b>	<b>Report Date</b>	<b>Period Covered:</b>
<b>Field Operations, National Initiatives &amp; Applied Research</b>	<b>March 31, 2011</b>	<b>March 2010 - December 2010</b>

**Assessment of Internal Control Structure**

Effectiveness and efficiency of operations	<b>Generally effective<sup>1</sup></b>
Reliability of Reporting	<b>Generally effective</b> Recommendations in specific areas are noted below.
Compliance with Applicable Laws and Regulations	<b>Generally effective</b>

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

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<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	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implement-ation	Internal Audit Comments on Management Response
<p>We observed that a substantial number of our sample grantees had not yet provided quarterly production reports as required by the Grant funding announcement. We determined that the reason for not turning in quarterly reports was that only completed production units were reported and incomplete or units still under production were not required to be reported. Another reason could be attributable to the time lag that could</p>	<p>Yes.</p>	<p>We strongly recommend that management build into the current system a onetime evaluation of ALL CFRAH awardee reports well before December 31<sup>st</sup> 2011 the Final Report due date (at least 3 months in advance) to determine compliance and identify any potential risks that might prevent grantees from successfully carrying out completion of the grant award.</p>	<p>Yes.</p>	<p>Field Operations and NIAR are currently working with CPPS to analyze each quarter's CFRAH reported production once the data is available.</p> <p>With each successive quarter, Field Operations and NIAR will work with District and Regional offices to conduct outreach to grantees that have yet to report units as required by their CFRAH awards.</p>	<p>Currently implemented.</p>	<p>Internal audit accepts the management 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.

ensue for meeting the threshold requirements as determined by NeighborWorks America for reporting a completed unit. [REDACTED]						
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**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 \$35M Capital Grant Rehabilitation Program</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
1	Agreement with the recommendation(s)	1
	Disagreement with the recommendation(s)	

## **Audit Review of \$35M Capital Grant Rehabilitation Program**

### **Objective**

To obtain assurance that grant disbursements and management are conducted in compliance with the relevant appropriating language and corporate policies.

### **Scope**

The scope of work for this review is from March 2010 - December 2010.

### **Background**

NeighborWorks America's FY 2010 appropriation included an additional \$35M for capital grants to rehabilitate or finance the rehabilitation of affordable housing units. This was a part of the H.R. 3288, which provides FY 2010 appropriations for several federal agencies, including NeighborWorks America, and was signed into law by President Obama on December 16, 2009. The funding was made available until fully expended.

The purpose of the NeighborWorks special grant program was to provide capital grants, which will be used exclusively to rehabilitate or finance the rehabilitation of affordable housing units, including necessary administrative expenses. Capital grants may not be used for acquisition costs, except for replacing pre-1976 Manufactured Housing.

### **Funding Announcement and Eligible Activities**

The Capital Funding for Rehabilitation of Affordable Housing (CFRAH) funding announcement was published by NeighborWorks America on March 18, 2010. It stated that \$35M would be provided in capital grants to NWOs and NW-affiliated capital corporations for the rehabilitation of housing units and that they were permitted to request up to \$500,000 in aggregate for all resource opportunities, and maximum total awards across all resource opportunities to a NWO could not exceed \$500,000. NWOs could submit the following applications:

- ***RE1: Single Family Acquisition Rehabilitation Program*** - provides capital funds to support programs for the rehabilitation of single family properties that will be acquired, or have recently been acquired, by the NWO, and will be rehabilitated, and sold to homeowners. (Grants from this program can support the replacement of pre-1976 manufactured housing.)
- ***RE2: Rehabilitation of New Acquisition Residential Rental Property*** - provides capital funds for the rehabilitation of projects that will be acquired or have recently been acquired by the NWO, and will be rehabilitated as residential rental property. (Grants from this program can support the replacement of pre-1976 manufactured housing.)

- ***RE3: Rehabilitation of Existing Portfolio Residential Rental Property*** - provides capital funds for the rehabilitation of residential rental property currently owned by the NWO. Grants from this program can support the replacement of pre-1976 manufactured housing.
- ***RLF: Revolving Loan Fund*** - provides capital funds for revolving loan funds for rehabilitation lending programs, including lending for owner-occupied repairs where the borrower is the owner of the property to be rehabilitated and lending for the acquisition and rehabilitation of a home where the borrower will be then end owner of the property to be acquired and rehabilitated. (Grants from this program can support the replacement of pre-1976 manufactured housing.)

### **Preferences**

Based on the Senate Report 111-069, NeighborWorks America was allowed to provide a preference to projects and programs which planned to serve rural areas. Those applicants requesting such a preference had to identify that they met one of three acceptable definitions to qualify for the preference. Other preferences were allowed for organizations who would be rehabilitating in non-Neighborhood Stabilization Program (NSP) funding areas, as well as past performance of NWO (including their OHTS rating at the time of award).

### **Application Review, Scoring and Award Decisions**

There were 253 applications received from NWOs for the rehabilitation grant funding totaling \$69,072,623. Of these, 149 applications were approved and \$33,053,495.00 was awarded. There were also two applications from the related Capital Corporations (NW Capital and Community Housing Capital) requesting \$2 million each for a total of \$4 million. Each Capital Corporation was awarded \$973,252.50. In total, \$35 million was awarded to NWOs and the Capital Corporations.

Application reviewers consisted of NWA staff teams. Each team had an initial reviewer (District Service Manager) lead reviewer, and other reviewer(s). In addition, all applications needed to be approved by the Field Director, COO and CEO.

**The following observations were noted and brought to the attention of management:**

### **OBSERVATION and RECOMMENDATION:**

It was observed at the time of our review that a substantial number of the applicants/grantees (13 out of the 15 sampled) had not yet reported quarterly production as outlined in provision #5 of the Investment and Grant Funds Letter which states that:

- “Organizations participating in this grant must provide **quarterly reports** to Neighborworks America that includes: a) a narrative section on the success stories and

overall program activities....” Furthermore, all grantees must complete a “Final Report including: a) a narrative section on project impact and success stories...” This particular requirement was further clarified in the *Attachment A* which stated that “all CFRAH grantees will be required to report quarterly for **units completed in the quarter**”.

We determined that the reason for not turning in quarterly reports was that only completed production units were reported and incomplete or units still under production were not required to be reported. Another reason could be attributable to the time lag that could ensue for meeting the threshold requirements as determined by NeighborWorks America for reporting a completed unit. The effect however is that the lack of reporting provides little information on a quarterly basis as to how well CFRAH awardees were working towards meeting production goals in order to initiate early intervention due to causes other than those earlier identified. While Internal Audit understands that the nature of activity in the program inherently has time lags in production unit reporting, the corporation loses some leverage where there is no early intervention in mitigating potential risks that might occur during the grant performance period.

***Recommendation:***

We strongly recommend that management build into the current system a onetime evaluation of ALL CFRAH awardee reports well before December 31<sup>st</sup> 2011 the Final Report due date (at least 3 months in advance) to determine compliance and identify any potential risks that might prevent grantees from successfully carrying out completion of the grant award. This would enable the corporation to undertake any necessary early intervention, in the event of a non-compliance or inability to complete the required production performance.

**Conclusion**

Based on the test work performed as part of this review, the grant disbursements and management of the \$35M Capital Grant Rehabilitation Program were conducted in substantial compliance with the relevant appropriating language and corporate policies. We would like to thank Field Operations and National Initiative & Applied Research for their cooperation during this review.