

Internal Audit Department
NeighborWorks® America

Audit Review of the OAD Offsite PRO Analysis Process

Project Number: OAD.PROANALYSIS.2012

Audit Review of the OAD Offsite PRO Analysis Process

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December 14, 2012

To: NeighborWorks America Audit Committee

Subject: Audit Review of the OAD Offsite PRO Analysis Process

Please find enclosed the final audit report of the OAD Offsite PRO Analysis process. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Director of Internal Audit

Attachment

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Function Responsibility and Internal Control Assessment
Audit Review of the OAD Offsite PRO Analysis Process

Business Function Responsibility	Report Date	Period Covered
Organizational Assessment Division	December 14, 2012	January 1, 2012 – October 31, 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>Offsite PRO Analysis Process – Vulnerable Organizations</p> <p>Internal Audit noted there are no formal notification requirements of offsite PRO analysis review results to network organizations noted with an existing vulnerable rating prior to and after the offsite PRO review. In addition, in cases where additional corrective actions (CAs) are identified as a result of the offsite review of a vulnerable organization, there are no requirements to formally communicate the CA to the organization or document the CA in ChangePoint to be tracked to resolution.</p>	<p style="text-align: center;">Yes</p>	<p>Revision to the Offsite PRO Analysis Process</p> <p>Internal Audit recommends Management revise the OAD offsite PRO analysis process to include formal notification requirements to organizations with vulnerable ratings when either of the two conditions is met:</p> <ul style="list-style-type: none"> • The organization maintains its vulnerable status and previously noted corrective actions have not been resolved, or • The organization maintains its vulnerable status and new corrective actions are identified as a result of the offsite review. 	<p style="text-align: center;">Yes</p>	<p>All network organizations receive a rating letter annually as a result of an onsite or off-site review. However, OAD concurs that this process should be enhanced for organizations that are vulnerable and receive additional findings during their review. Currently the rating letter doesn't account for additional Corrective Actions or AFIs cited in the new report for vulnerable organizations. The FOA Unit is modifying its process to ensure that all additional finalized Areas For Improvements and Corrective Actions are communicated to Network Organizations in a formal notification, during the Offsite Analysis Process regardless of whether the finding has an adverse impact on the</p>	<p style="text-align: center;">3/2013</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: ████████		In addition, Internal Audit recommends that when additional corrective actions (CAs) are identified for organizations with vulnerable ratings, the new CAs should be documented in ChangePoint for formal tracking to resolution.		rating. Additionally, the FOA unit intends to ensure that the additional Corrective Actions are added to the Change Point System		

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 OAD Offsite PRO Analysis Process		
# Of Responses	Response	Recommendation #
1	Agreement with the recommendation(s)	1
N/A	Disagreement with the recommendation(s)	N/A

Background

The Organization Assessment Division (OAD) is responsible for assessing and reporting on the organizational capacity and performance of NeighborWorks organizations. This is achieved by conducting onsite and offsite reviews of network organizations. Onsite reviews are conducted once every three years for each NeighborWorks network organization. NeighborWorks has established the uniform program review process/system PROMPT® (a registered brand name) to conduct onsite assessments, which stands for the following:

- P – Production and Program Services
- R – Resource and Financial Management
- O – Organizational Management and Board Governance
- M – Management – Staffing and Personnel
- P – Planning
- T – Technical Operating and Compliance Systems

The purpose of the onsite and offsite reviews is to assess the health, risk, performance, and capacity of the network organizations on an ongoing basis. Procedures, performance guidelines, and criteria have been established to facilitate uniform and consistent execution and scoring of the results of the onsite/offsite reviews.

The offsite review is derived from the P, R, and O dimensions of PROMPT, with the primary objective of identifying and mitigating organizational risk in the areas NeighborWorks management believes it is essential for risk to be effectively managed. Offsite PRO Analysis reviews are conducted annually for each network organization.

For additional information see Appendix A – “An Overview of the Core Activities of the Offsite PRO Analysis Process”

Objective

The objective of the audit was to:

- Obtain an understanding of the policies, procedures, and processes in place over the Offsite PRO Analysis review process,
- Ensure the established process is comprehensive and provides adequate information for management decision making, and
- Review documentation supporting compliance with the documented procedures and processes.

Scope and Scope Limitation

The scope of the review included all offsite PRO analysis reviews conducted for the February, May, August, and November 2012 Organizational Health Tracking System (OHTS) committee meetings.

In scoping the procedures for this review, Internal Audit did not validate the accuracy of all the data presented within the offsite PRO discovery document and the Offsite Health Summaries (OHS) presented to the OHTS committee. The Organizational Assessment and the Information Management divisions are currently undergoing a project to move the data used to an SQL database, which would enable the automated calculation/generation of the data presented in a uniform manner across all network organizations. Internal Audit has identified this process as a separate auditable area within the FY 2013 Risk Universe and based on the five year audit plan it is slated for audit in the FY 2014 audit year. However, we do not have cause to question the validity or accuracy of the current data in use.

Methodology

Internal Audit obtained the schedule to support offsite PRO analysis reviews conducted or scheduled for the February, May, August, and November 2012 Organizational Health Tracking System (OHTS) Committee meetings. Using the schedule Internal Audit judgmentally selected a sample of 15. In order to obtain a diverse representative sample of network organizations, the following characteristics were taken into account when making the sample selection:

- Date of the offsite review,
- Division/Region of the Network Organization,
- OHTS Rating as of May 2012, and
- Whether or not the organization was on the “Watch List²”.

² The Watch List is a list of NeighborWorks Organizations (NWO) bearing significant risk issues that are monitored by the OHTS committee quarterly. A NWO will be placed on the Watch List due to any of the following – Vulnerable rating, corrective actions have been cited/not cleared, an early alert has been issued, a provisional charter status, or other risk observed are cited.

Based on the sample selection made and the testing performed, Internal Audit examined documentation to support sufficient communication and collaboration between OAD, Field Operations, and National Initiatives Applied Research to assess the organizational risk of the selected organizations, resulting in the presentation of adequate information to support the ratings presented to the OHTS committee. Furthermore, Internal Audit examined documentation to support compliance with the established offsite PRO analysis process described above and in the Appendix A.

Observations and Recommendations

Observation No. 1: Offsite PRO Analysis Process – Vulnerable Organizations

The current offsite PRO analysis process establishes formal notification requirements of corrective actions³ to the network organization when the results of offsite PRO analysis review results in either a change in dimension (i.e., a change in the Exceed, Met, Not Met finding of P, R, and/or O) or a change (downgrade) in the OHTS rating (Exemplary, Strong, Satisfactory, or Vulnerable). The notification of the corrective actions identified may be communicated in the form of an External Notification Letter, Ratings Letter, and/or a PRO Report. In addition, corrective actions (CAs) are only required to be documented in ChangePoint if the CA resulted in a change in dimension or rating downgrade. However, Internal Audit noted there are no formal notification requirements of offsite PRO analysis results to network organizations noted with an existing vulnerable rating prior to and after the offsite analysis. In addition, in the case where additional CAs are identified as a result of the offsite analysis of a vulnerable organization there are not any requirements to formally communicate the CA to the network organization or document the CA in ChangePoint to be tracked to resolution.

Internal Audit acknowledges that NeighborWorks corporate and regional management are made aware of the offsite PRO analysis results (including corrective actions identified) of organizations with continued vulnerable ratings. These organizations are on the OHTS committee “Watch List” and the assigned relationship managers use the additional information and insight gained from the offsite PRO analysis review to aid the organization in resolving findings and mitigating the risks identified. However, current procedures do not address what occurs when an already existing vulnerable rated organization maintains its vulnerable rating and incurs additional CAs for mitigation. The absence of formal communication protocols on these type of risk issues may potentially result in losing track on mitigation follow ups, and from a NeighborWorks standpoint not having a complete portfolio of documented outstanding risk items.

Recommendation No. 1: Revision to the Offsite PRO Analysis Process

Internal Audit recommends Management revise the OAD offsite PRO analysis process to include formal communication requirements of offsite PRO analysis results to network organizations with vulnerable ratings when either of the two conditions is met:

- The organization maintains its vulnerable status and previously noted corrective actions have not been resolved, or
- The organization maintains its vulnerable status and new corrective actions are identified as a result of the offsite analysis.

In addition, Internal Audit recommends that when additional CAs are identified for organizations with vulnerable ratings, the new CAs should be documented in ChangePoint

³ A corrective action is cited when immediate risk is documented as a result of an onsite/offsite review. CAs should be resolved within a defined timeline, which is typically 6 months from the time of communication to the NWO.

for formal tracking to resolution. Internal Audit notes the inclusion of this recommendation will further aid NeighborWorks America with maintaining a network of excellence by formally providing timely communication to the network organizations continuously underperforming as well as promote accountability to ensure additional CAs identified as a result of the offsite PRO analysis (i.e., organizations with vulnerable ratings) are tracked to resolution.

Conclusion

The offsite PRO analysis process established by the Organizational Assessment Division to assess the organizational risk of network organizations is quite comprehensive and provides management with important information to monitor risk within the Network, to ensure they maintain the level of quality established by NeighborWorks and ensure organizational risks are identified and mitigated in a timely manner. Internal Audit further notes that incorporating formal communication and documentation requirements when organizations remain vulnerable and additional corrective actions are identified will increase assurance that the organizations receive the results of the offsite assessment in a timely manner, have adequate information to resolve issues identified, will be held accountable to resolve corrective actions, and NeighborWorks will be able to track progress of corrective actions to resolution. Furthermore, Internal Audit concludes that implementation of the aforementioned recommendation will further enhance the process and increase assurance that the offsite PRO analysis process achieves its intended objectives.

Appendix A – Overview of the Core Activities of the Offsite PRO Analysis process

The offsite PRO analysis process consists of the following contributing core activities, which are briefly described below:

- Discovery
- Discovery Comment
- DRAFT Offsite PRO Report for Internal and External Comment
- Final PRO Report
- OHTS Committee
- Ratings Letter
- ChangePoint⁴

Discovery – The review of the network organization by OAD for compliance with the established standards for the P, R, and O components is performed. The review is conducted by the OAD Program (P & O) and Financial (R) analysts as a desktop review with little to no interaction with the network organization. To perform the assessment of a network organization for Production and Program Services the program analyst obtains and reviews the following documents – quarterly production reports, form 990, strategic plan, operational updates, lending certifications, prior OHTS meeting minutes and prior on/offsite results/reports. The program analyst also utilizes an excel template to calculate standard production data and trends for each organization and this information is used to evaluate whether the network organization has met or exceeded NeighborWorks established production standards. To perform the assessment of a network organization for Resource and Financial Management the financial analyst obtains and reviews the most recent financial statement and A-133 audit reports, management letter comment(s), and prior onsite/offsite review results. The annual financial results are entered into Switchboard⁵, which is used to facilitate the standard calculation of key ratios (liquidity and leverage) and trends (3 year revenue and expense) for evaluation by the financial analyst. To perform the assessment of a network organization for Organizational Management and Board Governance (OMBG) the program analyst obtains and reviews the documents previously listed for the assessment of the P & R dimensions as well as the network organization’s annual report and website. Based on the review performed by the OAD program and financial analysts, each dimension (PRO) is rated as either “Exceed”, “Meet”, or “Not Met”. The Director of Financial and Offsite Analysis and/or the Deputy Director of the Organization Assessment Division review the results of the review conducted.

In addition to a rating for each PRO dimension, an overall rating resulting from the offsite assessment is also assigned based on the following algorithm established by OAD:

⁴ ChangePoint is an internally developed tool used by OAD and Field Operations to record and track corrective actions noted as a result of onsite and offsite assessments.

⁵ Switchboard is an access database that contains financial statement and A 133 audit report results of the Network Organizations.

- Exemplary – Exceed performance measures in P, R, O and fail no other PROMPT dimension (based on the most recent onsite assessment)
- Strong - Exceed at least one performance measure of P, R, O and fail no other PROMPT dimension (based on the most recent onsite assessment)
- Satisfactory – Meet P, R, O and meet at least five of the six PROMPT dimensions (based on the most recent onsite assessment)
- Vulnerable – Not Met in any of P, R, O or any two or more Prompt dimensions (based on the most recent onsite assessment)

The final results of the review are combined and documented in the Offsite PRO Discovery Form and the form is placed on *Inside NeighborWorks*⁶ SharePoint site accessible to designated individuals within NeighborWorks.

Discovery Comment – An email notification is sent to the District, NIAR, FIELD Operations, National Homeownership Program, and National Foreclosure Mitigation Counseling Program informing the recipients that the discovery document has been posted and is ready for review. Respondents from FIELD (District Relationship Manager) and NIAR have 10 business days to comment, provide additional information/context to the observations of OAD as well as provide documentation to support performance against objectives that were not available to OAD. In addition to documentation, FIELD/NIAR/OAD may hold meetings or conference calls to discuss the results of the Discovery process and further vet any discrepancies. FIELD/NIAR document whether or not they concur with the P, R, and O ratings presented by OAD and the overall offsite assessment rating recommendation presented by OAD.

If there are no conflicts identified then the recommended ratings are finalized and the Offsite Health Summary (OHS) is prepared for each of the network organizations to be placed in the OHTS binder for review by the OHTS Committee. However, if OAD, FIELD, and NIAR do not arrive at a consensus for the dimension ratings and overall rating then the OHTS Committee will make the final decision of the respective organization’s ratings.

PRO Reports - If the results of the offsite assessment resulted in a change (downgrade) in the network organization’s OHTS rating (i.e., An Organization with a Strong rating now has a Satisfactory rating based on the results of the PRO assessment), then a PRO report is drafted by OAD. The DRAFT report is provided to FIELD and NIAR for a five day internal comment response period. If the comments/information presented by FIELD/NIAR does not resolve the issues raised by OAD then the report is sent to the network organization’s Executive Director for a ten day external comment period. If the organization does not provide comments and evidence to resolve the issues raised then the comments will be incorporated into the final PRO report, and provided to the OHTS Committee for review.

OHTS Committee Meetings – The OHTS committee meetings are held four times per year. The results of the offsite PRO analysis reviews conducted for each meeting are reviewed by

⁶ Inside NeighborWorks is the company’s intranet site, which is accessible only to NeighborWorks employees and permitted guests with proper log in credentials.

and vetted with the committee. Taking into consideration the comments included in the OHS and the discussions held during the meeting the OHTS committee makes the final determination of the overall rating for each organization.

Notification – Following the OHTS Committee meeting OAD prepares a draft of all the rating letters to each network organization with an offsite assessment completed during the period. The ratings letter includes the following information:

- Overview of the Offsite PRO Assessment process;
- Rating resulting from the assessment;
- Corrective Action(s) identified; and
- OMBG Notice of Priority Risk(s)/Item(s) of Note

The draft is provided to the Director of Field Operations and Chief Operating Officer (COO) for review. The COO signs off on the final ratings letter prior to distribution to the network organizations. In addition, if the offsite PRO analysis review resulted in a full PRO report, the final PRO report is provided to the network organization.

Tracking of Corrective Actions – Corrective Actions resulting in a change in dimension or a rating change are placed into ChangePoint by OAD for tracking to resolution. OAD and District staff have access to ChangePoint to update the status and progress of a corrective action towards resolution.