

Internal Audit Department  
NeighborWorks® America

## Audit Review of EHLA Grant Awards

Project Number: EHLA.GrantAward.2012

## Audit Review of the EHLP Grant Awards Process

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August 20, 2012

To: NeighborWorks America Audit Committee

**Subject: Audit Review of the EHLA Grant Awards Process**

Please find enclosed the final audit review report of the EHLA Grant Awards process. There were no significant observations to report. 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 EHLP Grant Awards Process**

| Business Function Responsibility                | Report Date                            | Period Covered                    |
|---|--|-----------------------------------|
| Emergency Homeowner's Loan Program (EHLP)       | August 20, 2012                        | February 1, 2012 - March 31, 2012 |
| <b>Assessment of Internal Control Structure</b> |  |                                   |
| Effectiveness and Efficiency of Operations      | <b>Generally Effective<sup>1</sup></b> |                                   |
| Reliability of Financial Reporting              | <b>Generally Effective</b>             |                                   |
| Compliance with Applicable Laws and Regulations | <b>Not Applicable</b>                  |                                   |

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.

**Executive Summary of Observations, Recommendations and Management Responses**

| Summarized Observation;<br>Risk Rating   | Management Agreement with Observation<br>(Yes/ No) | Internal Audit Recommendation Summary | Accept IA Recommendation<br>(Yes/ No) | Management's Response to IA Recommendation | Estimated Date of Implementation<br>(Month/Year) | Internal Audit Comments on Management Response |
|--|--|---------------------------------------|---------------------------------------|--|--|--|
| <p>Observation No.</p> <p><i>There were no observations for this audit review.</i></p> <p>Risk Rating: N/A</p> | N/A  | N/A                                   | N/A                                   | N/A  | N/A  | N/A  |

**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 EHP Grant Awards Process</b> |   |                         |
|---|---|-------------------------|
| <b># Of Responses</b>   | <b>Response</b>                         | <b>Recommendation #</b> |
| 0   | Agreement with the recommendation(s)    | 0                       |
| 0   | Disagreement with the recommendation(s) | 0                       |

## Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act provided \$1 billion for the Emergency Homeowners' Loan Program (EHLPP) to the Department of Housing and Urban Development (HUD). HUD through a signed Co-operative agreement<sup>2</sup>; contracted with NeighborWorks America to perform several functions<sup>3</sup> for the program. The program offers a declining balance, deferred payment "bridge loan" (non-recourse, subordinate loan with zero interest) for up to \$50,000 to assist eligible homeowners who have become unemployed or underemployed due to the economic downturn or a medical condition. A lottery system was initially considered to select eligible borrowers. An eligible borrower is one who has mortgage and other payments in arrears (i.e. taxes, insurance, and mortgage insurance premiums).

The original EHLPP grant awards were based on an allocation of 21,930 households divided between Metropolitan and Non-Metropolitan counties in the 27 EHLPP states and Puerto Rico. Grantees would be bound to the number of awarded household allocations and unable to exceed those allocations in any geographic area. However, on August 4, 2011, HUD announced a new policy, known as "first eligible, first offered." As part of that policy, all geographic allocations limits previously established were eliminated and Grantees were able to submit as many eligible homeowner applications as possible until available funds ran out or until the September 30, 2011 statutory deadline, whichever came first. Revised Grant awards under this addendum were based on the total, non duplicative, EHLPP applications submitted through Hope LoanPort and received by HUD's Fiscal Agent [REDACTED]).

## Objective

The audit objective was to assess the efficiency and effectiveness of the grant awards process/disbursements in accordance with the HUD contractual requirements and EHLPP guidelines.

## Scope

The scope of this audit covered grant awards and disbursements made during the third quarter of fiscal year 2012. Internal Audit selected third quarter awards/disbursements since changes and controls related to the "First Addendum to the Grant Agreement" were fully implemented and operational during the third quarter.

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<sup>2</sup> The EHLPP Co-operative agreement between HUD and NeighborWorks America (NW) was signed on May 5, 2011 and has been subjected to a number of amendments. The last recorded amendment was on September 23, 2011.

<sup>3</sup> NeighborWorks responsibilities included - Selecting participating counseling agencies, Coordinating outreach, Creating a system by which counseling agencies would submit applications to the Fiscal Agent - [REDACTED] Conducting training for counseling agencies, Facilitating the pre-applicant solicitation and screening process, Overseeing the provision of the required EHLPP counseling levels by Grantees; and Reviewing homeowner appeals of counseling agency determinations.

## **Methodology**

An introductory meeting was held on April 25, 2012 where the following topics were discussed:

- An overview of EHLP Grant Award Process;
- Grant Awards & Disbursement Activity to date;
- Procedural Elements Linking Awards to Disbursements and Draw Schedules; and
- Primary Risks and Controls.

Internal Audit met with EHLP management to perform a walkthrough of the grant award process, review the preliminary risk assessment questionnaire, review the accounting for grant awards, and identify systems utilized. EHLP provided Internal Audit with a detailed flowchart of the grant awards draw process (See Appendix A Flowchart). The flowchart provided was validated by Internal Audit and utilized as an assessment tool to identify where internal controls should exist, and whether or not those controls were adequately designed, and operating effectively in the grant awards process.

Internal Audit judgmentally selected a sample out of all disbursements that took place in Quarter 3 based on the size of grants awarded. A sample of 13 grantees was selected from the entire population of 51 grantees.

The procedures for this audit focused mostly on the grant awards process. Internal Audit was particularly interested in verifying controls over the grantee's eligibility/approval. To assess the controls, Internal Audit inspected documentation to determine if Grantees were in compliance with NFMC requirements as described on the "Application Guide". To assess grantees compliance, Internal Audit obtained and inspected a list referred to as "Eligibility Certification" for each grantee selected in our sample. The list contained 18 items which were vouched and matched to the "Application Guide" document. Another important aspect of the review was to ensure the applications submitted to the fiscal agent matched the amount awarded to grantees. All documentation provided and related to the award process and disbursements were found to be well organized and adequate.

## **Observations and Recommendations**

There were no significant observations to report and as a result no recommendations provided at this time.

## **Conclusion**

The Emergency Homeowners' Loan Program has implemented a well designed set of controls around the grant awards and disbursement process. EHLP management has been able to assimilate HUD's requirements and changes to the program by developing controls to support HUD's requirements. Based on the information reviewed, Internal Audit concludes that the systems and controls in place for the EHLP grant awards and disbursement process seem adequate as implemented.



# Appendix A:

Flowchart - EHELP Grantee Draw Process

