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Special Audit on the Use of National Foreclosure Mitigation Counseling Program Grant Funds by ACORN Housing Corporation, Inc.

FINAL REPORT

Issued to Senator Christopher J. Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
on December 17, 2010

Office of Internal Audit
NeighborWorks® America

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I. EXECUTIVE SUMMARY

A. Purpose and Scope

The Office of the Internal Audit Director of NeighborWorks America received a letter dated September 21, 2009 from the Chairman of the United States Senate Committee on Banking, Housing and Urban Affairs requesting the Internal Audit Director of NeighborWorks America and the Inspector General of the U.S. Department of Housing and Urban Development (HUD) to investigate the use by ACORN Housing Corporation Inc. (AHC) of the National Foreclosure Mitigation Counseling (NFMC) Program funds and HUD housing counseling funds, respectively. This report is specifically focused on the NFMC Program funds.

In this section of the report, we provide a summary of the observations made during our review, recommendations and concluding remarks.

During the period of our audit investigation, the financial information reviewed was solely related to AHC, Inc. Audited consolidated financial statements for Fiscal Years 2008 and 2009 were not available for our review from the date of our introductory meeting November 4, 2009 through January 7, 2010, the last day of our fieldwork.

Furthermore, since we could not fully rely on AHC's unaudited financial reports of NFMC funds, related testing on actual expenditures of NFMC funds was limited. As a result, our test work on financial operations was limited to certain vendor contracts over $25,000.

Our methodology on the client files adopted audit criteria drawn from the requirements of the NFMC Program for the Levels 1, 2 and 3. For practical considerations, the measured rates of exception were derived from testing on just a subset of the requirements specified in the Funding Announcements considered to be critical and the Minimum Criteria for Delivery of Service to a Client within the National Industry Standards for Homeownership Education and Counseling (NIS). (The factors considered for each level of testing are described further in Section VIII "AHC's Performance to Date Under the NFMC Program".) Finally, we adopted the criteria that applicable service requirements should have been satisfied while the cases were active; specifically, before the case files were closed or billed.

These criteria were applied to a sub-sample of 350 homeowner files selected from a randomly drawn sample of 1,000 case files that had been posted to the NFMC Data Collection System by October 31, 2009. The resulting sample selection itself, in the context of all practical limitations, was reasonably representative of the population of counseling activity through October 31, 2009.

We found material exceptions in the absence of written action plans, evidence of contact with servicer and/or lack of close-out letters. Although the homeowner files reasonably demonstrate that counseling activity was conducted, we found the need for significant improvement in the completeness of documentation in AHC's client files.

B. NFMC Awards

ACORN Housing Corporation participated in the NFMC Program and was awarded a total of $26.5 million, which consisted of $9.1 million for Round 1, $16.2 million for Round 2, and $1.2 million for Round 2 legal assistance, respectively.

C. Synopsis of Observations and Recommendations

Below are highly summarized observations and recommendations, based on our review. Further details and background for each observation are provided in *Sections VII through X* of this report. Furthermore, we strongly recommend the satisfaction of items #1, 2, 5, 6, 9, 11and 14 prior to resumption of NFMC grant funding to AHC.

We have rated each of our audit observations according to its level of risk significance using the following ratings of: High, Moderate, or Low. Below is a description of each of the risk ratings:

Risk Rating: HIGH

The identification of a serious deficiency that significantly impacts the grantee from achieving NFMC's program objectives, financial results, statutory obligations or that may otherwise impair the reputation of the NFMC Program.

Risk Rating: Moderate

The identification of a deficiency that could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, and/or integrity of reporting and should therefore be addressed in the short term.

Risk Rating: Low

A weakness identified that does not seriously detract from the system of internal control and/or operational effectiveness/efficiency, or integrity of reporting. The weakness does not prevent the grantee from achieving the objectives of the NFMC program. It is not considered an immediate risk, but should be addressed by the grantee in the long term.

TOPIC	**CRITERIA/ OBSERVATION**	**RECOMMENDATION**
FINANCIAL REQUIREMENTS:	***Please refer to Section VII for further descriptions on the observations and recommendations related to AHC's Compliance with Financial Requirements.***	
1. *Late Submission of Audited Financial Statements and A-133 Report* ***Risk Rating:*** (b) (4)	In accordance with NFMC program requirements "applicants must have completed an independent audit[1] within six months of the completion of their most recent fiscal year, which must be submitted along with their application, unless NeighborWorks America has the most recent audit on file from a previous application. Audits should be less than two years old." As of January 7, 2010[2], neither of the audited financial statements for the fiscal years ending in 2008 and 2009 had been submitted to NeighborWorks America.	We recommend that AHC provide audited financial statements for the fiscal years ending 2008 and 2009, and any other future audits within the time stipulations of the NFMC Grant award, and also ensure that all corrective actions identified for current and prior years have been satisfactorily resolved. Furthermore, we recommend that AHC's board and management put a higher priority on completing annual audits in a timely fashion and in compliance with NFMC and OMB A-133 guidelines.

1 An independent audit consisted of audited Financial Statements, Management Letter (if any) and OMB A-133 compliance report.

2 The last day of field work for this investigation was on Thursday, January 7, 2010. Audited financial statements for FY 2008 and FY 2009 were not received until February 1, 2010 and March 31, 2010, respectively.

TOPIC	**CRITERIA/ OBSERVATION**	**RECOMMENDATION**
2. *No Federal Audit Clearinghouse Submission of Reporting Package* ***Risk Rating:*** (b) (4)	OMB Circular A-133 requires that organizations that have undertaken OMB Circular A-133 compliance reports should complete applicable sections of a data collection form (DCF) that summarizes the auditor's results, findings and questioned costs, and submit a reporting package to the Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the independent auditors report, or 9 months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. As of January 31, 2010[3] AHC had not submitted a reporting package to the Federal Audit Clearinghouse (FAC) for the fiscal years 2008 and 2009 (the FY2008 and FY 2009 packages was due 3/31/09 and 3/31/10 respectively)[4].	We recommend that AHC provide written notification from its external auditors that attest to the conduct of an audit in accordance with OMB Circular A-133 that states (a) there were no audit findings and (b) the status of any prior audit findings. Alternatively, AHC could submit a copy of the reporting package in lieu of compliance with the notification requirement that evidences submission to the Federal Audit Clearinghouse and discloses the items listed above.
3. *Term Limit for Independent Auditors* ***Risk Rating:*** (b) (4)	It is a common industry practice to recommend a five-year term limit for independent auditors, as the length of service before starting a bidding process to consider other auditing firms' prices and services. (b) (4) [redacted] have been the independent auditors for AHC since July 2003.	We recommend that AHC conduct a bidding process for new external auditors in preparation for the 2010 fiscal year audit.
4. *Hiring an In-House Chief Financial Officer* ***Risk Rating:*** (b) (4)	We noted that the external accounting firm of (b) (4) [redacted]. was providing staff as an Interim CFO.	We recommend that AHC consider hiring an in-house CFO. This will assist with the retention of institutional financial management knowledge (i.e. AHC programs, grants, etc.).

3 During our exit conference, we were informed that AHC submitted their 2008 reporting package to the FAC on February 4, 2010. We reviewed supporting documentation.

4 See Footnote 2

TOPIC	CRITERIA/ OBSERVATION	RECOMMENDATION
PROGRAMMATIC PERFORMANCE RELATED TO CLIENT FILE REQUIREMENTS:	***Please refer to Section VIII for further descriptions on the observations and recommendations related to AHC's performance to date under the NFMC program.***	
5. *Completeness and Documentation of Client File Requirements in Homeowner Files* ***Risk Rating:*** (b) (4)	Material exceptions due to client file incompleteness[5] (currently estimated at 44%) of the 350 sample homeowner client files examined, across NFMC Rounds 1 and 2 were identified. a. 29% of the exceptions (representing 13% of the total sample of files) identified are based on an absence of written action plans. b. 23% of the exceptions (representing 10% of the total sample of files) identified result from a lack of evidence of any attempted contact by the counselor(s) with the servicer/lender, in cases that should have required such contact. c. 15% of the exceptions (representing 7% of the total sample of files) pertain to the lack of close-out letters or related documentation, representing 14% of all Level 2 and 3 files in the sample. d. 11% of the exceptions (representing 5% of the total sample of files) are from insufficient verification of the homeowner's budget. e. 10% of the exceptions (representing 4% of the total sample of files) stem from budgets that were either not prepared in Level 1 cases or were missing from the files. f. 12% of the exceptions (representing 5% of the total sample of files) are made up from a combination of intake, and homeowner authorization deficiencies.[6]	We recommend that sound quality control methods and techniques be implemented by AHC to ensure completeness of case files at the time they are reported and billed. This would include, among other aspects: (a) methods of ensuring that data captured in the (b) (4)[7] case management system are reliable and supported by case file documentation; (b) enhanced validation of timestamp and case status data stored in (b) (4); and (c) ensuring that all relevant staff are properly trained as to the documentation requirements for billing of cases.

5 Client file documentation completeness is required for NFMC billing. For audit purposes we considered the lack of clearly stated documentation or absence of documentation as an exception.

6 See Figure 9 on page 54 which provides a graphical representation.

7 (b) (4) is the case management system utilized by AHC.

TOPIC	CRITERIA/ OBSERVATION	RECOMMENDATION
5a. *Frequency of Exceptions per Homeowner Case File*[8]	It should be noted that of those homeowner case files identified with exceptions, 41% had more than one identified exception.	(Same as #5 above)
6. *Timing for Uploading Clients for Billing to the DCS (Data Collection System)* ***Risk Rating:*** (b) (4)	The NFMC Funding Announcements define the required documents that must be present in homeowner case files before billing for the various counseling levels. There were some exceptions identified in our test work where AHC uploaded clients into the DCS early in the process cycle (for any given unit), and prior to the completion of all NFMC program requirements (i.e., prior to action plans distributed to homeowner, prior to contact with servicer, etc.). The effect of this condition could have AHC billing NFMC for clients who potentially may not have completed the requirements in accordance with NFMC program requirements.	(Same as #5 above)
7. *AHC's Inability To Locate Some Requested Files* ***Risk Rating:*** (b) (4)	There were three files requested, from our sample, which AHC was unable to locate. The ability to locate files in a timely manner is important for client service, document retention and audit purposes. Furthermore, these files have personal identifiable information for the homeowners, which is highly confidential.	We recommend that AHC undertake a review of its data retention and storage policies, particularly for files in transit. Emphasis should be placed on enhancing the current system's ability to locate/trace files quickly and efficiently.

8 This item is a subset of item # 5, and was therefore not rated separately.

TOPIC	**CRITERIA/ OBSERVATION**	**RECOMMENDATION**
TRAINING	***Please refer to Section IX for further descriptions on the observations and recommendations related to AHC's training and supervision of homeowner counselors.***	
8. *Training Hours, Minimum Requirements, etc.* ***Risk Rating:*** (b) (4)	The National Industry Standards for Homeownership Education and Counseling (NIS) requires that counselors who are new to the field of homeownership education: (1) obtain appropriate orientation and introductory level training during the initial 6 months of employment, and (2) within 18 months of being hired, obtain a minimum of 30 hours of facilitated instruction, in addition to completing a minimum of 10 hours annually as part of a continuing education requirement. There was no provision in AHC's Training Manual on the minimum requirements for continuing education after basic requirements had been met. We were also unable to determine if individual home counselor minimum requirements had been met annually. We were unable to determine how many hours were attributable to each of the training sessions[9] attended by AHC staff. Finally, we also noted the vacant position of a Training Director since July 2009.	We recommend that AHC's Training Manual be updated annually to indicate the minimum requirements for home counselor training and continuing education and that AHC ensure adherence to these requirements. This would enable counselors to be current on new products and services available to clients. We also recommend that AHC expedite the hiring of a Training Director. We further recommend that AHC complete the requirements for fully adopting the National Industry Standards for Homeownership Education and Counseling.

[9] It is important to note that NeighborWorks America is not responsible for the training or supervision of the home counselors of individual grantee organizations. NeighborWorks America, however, provides training facilities in homeownership education and counseling.

<table>
<tr><th>TOPIC</th><th>CRITERIA/ OBSERVATION</th><th>RECOMMENDATION</th></tr>
<tr><td>OVERSIGHT AND CONTROLS</td><td>Please refer to Section X for further descriptions on the observations and recommendations related to the adequacy of AHC's organizational oversight and controls.</td><td></td></tr>
<tr><td>Procurement</td><td>
The following chart provides a listing of all contracts that AHC entered with vendors for homeowner referral fees during NFMC Rounds 1 and 2.
<table>
<tr><th>Vendor</th><th>Contract Date</th><th>Contract Amount</th></tr>
<tr><td>ACORN</td><td>4/15/2008</td><td>$ [redacted] (b) (4)</td></tr>
<tr><td>Florida ACORN</td><td>4/15/2008</td><td>$ [redacted] (b) (4)</td></tr>
<tr><td>Texas ACORN</td><td>4/15/2008</td><td>$ [redacted] (b) (4)</td></tr>
<tr><td>Michigan ACORN</td><td>4/15/2008</td><td>$ [redacted] (b) (4)</td></tr>
<tr><td>Minnesota ACORN</td><td>7/7/2008</td><td>$ [redacted] (b) (4)</td></tr>
<tr><td>ACORN</td><td>3/1/2009</td><td>$ [redacted] (b) (4)</td></tr>
<tr><td>TOTAL</td><td></td><td>$ 6,141,330.00</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>
<u>During Round 1,</u> AHC used a non-competitive procurement of services, executed through five contracts to Association of Community Organizations for Reform Now (ACORN) totaling $3.5 million, for the referral of homeowners for NFMC services. AHC provided a written rationale for the procurement process that was employed.
<u>During Round 2,</u> AHC solicited bids for the referral services, however the sole bid received was from ACORN, and AHC entered into a single contract with that entity for $[redacted] (b) (4).
Regarding the contracts to ACORN, we noted that there was no evidence that these significant contractual agreements were approved by the Executive Director. In addition, we found no evidence that delegated authority limits for the issuance of contracts exist.
</td><td>See Recommendation below.</td></tr>
</table>

TOPIC	**CRITERIA/ OBSERVATION**	**RECOMMENDATION**
9. *Arms Length Transactions/ Organizational Conflicts of Interest* ***Risk Rating:*** (b) (4)	According to OMB Circular A-110, paragraph 43, which addresses open and free competition, "the recipient shall be alert to organizational conflicts of interest." AHC executed vendor contracts with ACORN totaling $6.1 million across Rounds 1 and 2 that raise issues in the following four regards: i. The awards of these contracts violated the intent of OMB Circular A-110 "Organization conflict of interest" and "Revision of budget and program plans" requirements; ii. These contractual awards are highly material in that significant shares (44% and 17% for Rounds 1 and 2, respectively) of total funding from NeighborWorks America were outsourced to ACORN; iii. The contract awards to ACORN represent major overruns[10] against both: (i) the planned amounts for outreach represented in AHC's applications for NFMC funding and (ii) AHC's formal representations to NeighborWorks America shortly before issuance of these contracts, as summarized above. iv. We evidenced significant relationships between ACORN and AHC, which calls into question the validity of the arms-length transaction. The Round 1 contract was non-competitive (sole source) and the Round 2 contract was awarded after AHC received just one bid.	We recommend that (a) AHC not enter into any non-competitive contracts with organizations that are considered to be related parties, and that (b) it fully conform to the procurement provisions of OMB Circular A-110.

10 The awards were for (b) (4) percent and (b) (4) percent of the outreach amounts proposed in the applications for Rounds 1 and 2, respectively.

TOPIC	CRITERIA/ OBSERVATION	RECOMMENDATION
9a. *Transparency of Vendor Contracts Executed with ACORN Local State Chapters*[11]	From a transparency standpoint, the issuance of multiple contracts to ACORN under different names gives the appearance (or may lead an outsider to believe) that contracts have been distributed among separate entities when they are actually one and the same, sharing the same federal tax identification number and receiving payments routed in the same manner[12]. We observed that the four ACORN local state chapters, noted above, had separately executed contracts, totaling $2.5M with AHC, which contributed to the $6.1 million in executed vendor contracts for client referrals.	(Same as #9, above) We recommend that AHC fully disclose to NeighborWorks America all material vendor contractual relationships related to NFMC by providing a break-down analysis of the contractual amount and vendor name.
10. *Rationale For Contract Cost Not Provided In Procurement Files* ***Risk Rating:*** (b) (4)	The procurement provisions of OMB Circular A-110 (paragraphs 45-46) require that purchases in excess of $25,000 be accompanied by some form of cost or price analysis in the procurement files. We were unable to identify any evidence of price analysis in the ACORN homeowner referral contract files for Rounds 1 and 2, as required by the above provisions.	We recommend that AHC's pricing rationale be documented in the procurement file, in accordance with the corresponding provisions of OMB Circular A-110.
11. *Lack of Delegation of Authority/ Segregation of Duties for Client Referral Fees* ***Risk Rating:*** (b) (4)	It is a best practice for organizations to have a delegation of authority policy which identifies persons who can approve invoices for payment with authority limits on a graduated scale. It was observed that the purchase order for (b) (4) for ACORN's Round 2 homeowner referrals for counseling services was not dated or approved by an authorized Officer or management of AHC. It was instead authorized by the Procurement Manager. Moreover, we found no evidence of the Procurement Manager having been delegated that level of authority.	We recommend (a) that AHC establish formal delegation of authority limits for relevant managers involved with vendor selection, evaluation, monitoring and payment authorization; (b) In addition, contracts exceeding a certain dollar amount threshold (determined by AHC) should be subject to the approval of AHC's Board of Directors.

11 This item is a subset of item # 9; therefore it is not individually rated.

12 Payments under the various contracts were mostly routed "c/o CCI" to a Canal Street address in New Orleans.

TOPIC	CRITERIA/ OBSERVATION	RECOMMENDATION
Accounts Payable:		
12. *Inaccurate Vendor Names Reflected in General Ledger for Referral Fees* ***Risk Rating:*** [redacted] (b) (4)	We observed that incorrect vendor names were reflected in AHC's general ledger for payment transactions in our sample that were related to referral fees to "ACORN Partnerships" and "Texas Acorn Housing Corp." AHC management claims that these were merely inaccurate recordings of the vendor names in the financial system. However, such errors can potentially undermine the transparency of the payment history.	We recommend that all vendor names in the General Ledger should reflect only those parties identified in vendor contracts.
13. *Controls over Manual Checks* ***Risk Rating:*** [redacted] (b) (4)	There were a number of instances of handwritten checks issued for significant payments, even though AHC had implemented an accounting application that has the capability of producing system generated checks.	We recommend that AHC develop and implement a policy to determine when hand-written checks are acceptable for use and should be made an exception. In addition, a separate log should be maintained for those specific instances where approval is obtained for handwritten checks.
14. *Lack of Dual Signatures on Payments Exceeding $10,000* ***Risk Rating:*** [redacted] (b) (4)	AHC's Accounts Payable procedures require two signatures for payments exceeding $10,000. This policy was not followed on multiple occasions. We found only the Comptroller's signature on the checks identified within our sample (i.e. one signature). As a related issue, we observed that the initiation and approval of payments were made by the Executive Director. There was little evidence of intervening management levels in the initiation and approval of the payment process that would provide the assurance of adequate segregation of duties for effective internal control purposes.	We recommend that AHC adhere to its Accounts Payable Procedures; dual signature requirements and integrate appropriate segregation of duties into the process. The addition of more check signers to its accounts could also greatly facilitate this.

D. Concluding Remarks

As a general statement, AHC billed a significant volume of client counseling cases and it would be fair to say that counseling activities were at least initiated on almost all of the counseling files reviewed. However, there were a number of areas identified as having significant lack of compliance against program and regulatory requirements, which also included system deficiencies.

In our review of the programmatic side of AHC operations, we noted that there were significant frequencies of incomplete client file documentation based on the client files presented to us at the time of our fieldwork. We noted that these cases were at varying levels of completeness and that a significant share (currently estimated at 44 percent) of the billed sample files had one or multiple cases of incomplete file documentation. Varying levels of completeness refers to either the lack of clearly stated documentation or absence of documentation. AHC's current systems and processes do not reliably and consistently ensure that AHC client cases billed have satisfied all key NFMC program requirements. As indicated, one of the drivers for this observation could be traced to the aggressive billing practices of AHC, where incomplete client files (not having all relevant documentation required for billing) were uploaded for billing into the NeighborWorks America Data Collection System (DCS). We found from our review and through discussions with AHC that cases were preferably billed early enough to help reduce the likelihood that the homeowner's case is not billed first by another grantee. The NeighborWorks America's Data Collection system (DCS) has controls in place to prevent multiple grantees from submitting billings on any duplicate homeowner. As a result, the sooner a grantee was able to upload clients into the DCS for billing, the greater its chances of receiving payment. Although the homeowner files reasonably demonstrated that counseling activity was conducted, we found the need for significant improvement in the completeness of documentation in AHC's client files. This is particularly important for third party reviews and to ensure that an adequate audit trail exists.

In respect of AHC's internal financial control environment[13], AHC's operating style could be best described as informally structured, despite the existence of policies and procedures. Moreover, a number of instances identified in our sample have suggested that AHC's own policies and procedures were not strictly adhered to. Based on the observations during our review, we consider AHC's internal control environment as having room for further improvement[14]. This is reflected, for example, where there was a lack of delegation of authority for some employees who are involved in the decision management processes of the organization, and instances where internal AHC procedures were not followed. Similarly, assignments of authority and responsibility around approval of contracts and payments in respect of NFMC program funds appeared to be ad-hoc with no formal delegation of authority. AHC's procurement practices and processes were also considered to be minimally adequate, their importance being magnified by the material amounts of NFMC program funded vendor contracts executed with ACORN.

13 The attitude and actions of the board and management regarding the significance of control within the organization. It controls the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes elements such as: integrity and ethical values; Management's philosophy and operating style; organizational structure; assignment of authority and responsibility; policies and practices.

14 Level and quality of the controls are insufficient for the processes, functions examined, specifically accounts payable and procurement. These specific areas would require improvement.

From a financial perspective, AHC would greatly benefit from having (1) an in-house Chief Financial Officer who is a certified public accountant and (2) greater Board involvement in the delegation of authority and monitoring of financial reports and regulatory requirements of the organization. The significant repeated delays in AHC's reporting and submission of its annual audited financial statements to stakeholders and regulatory authorities over three years give cause for concern.

A number of our AHC observations have been corroborated in earlier findings made by (b) (4) [redacted] Furthermore, there were references to material and significant deficiencies in the 2008 audited financial statements. Major highlighted risks noted by AHC's external auditor, (b) (4) [redacted] can be found in **Appendix A**.

We finally recommend that AHC satisfactorily addresses the issues raised in this report subject to verification by NeighborWorks America in its role as Grant Administrator of the NFMC Program.

E. Foreword to Remaining Sections

In the remaining sections, beginning with *Section II*, we provide some background on NeighborWorks America, the purpose, enabling legislation and program guidelines on the National Foreclosure Mitigation (NFMC) Program and the Office of Internal Audit. *Section III* provides a summary of the issues requested for the audit investigation and further elaborates on the audit scope, objectives and scope limitations. In *Sections IV* and *V*, we provide an overview of NeighborWorks America's NFMC program management and oversight process. The information in these sections is largely informational and provides the context and background for which this review was undertaken.

The details of our observations referenced above and made during the course of our review can be found in the subsequent *Sections VI to XII*. We reviewed, in the following sections, information on grant awards, disbursements and payments made to ACORN Housing Corporation during the course of Round 1 and Round 2 of the NFMC program (*Section VI*); AHC's compliance with program and legislative requirements (*Section VII*); its performance to date under the NFMC program related to file requirements (*Section VIII*); training and supervision of AHC employees (*Section IX*); the adequacy of AHC organizational financial oversight and controls (*Section X*) and AHC's response to the recent events (*Section XI*). In *Section XII* we provide a copy of a prior internal audit report on AHC in respect to the NFMC program.

F. Critical Events Subsequent to Internal Audit Fieldwork

Subsequent to the completion of our fieldwork on January 7, 2010, the following critical events occurred and were not reviewed or taken into account in our analysis of observations and or recommendations as part of our final test work:

- NeighborWorks America received AHC's FY '08 audited financial statements on February 2, 2010 (approximately 13 months and 10 months late by NFMC and OMB requirements[15], respectively). The report noted an unqualified opinion with a going concern disclosure. (b) (4) [redacted]

- NeighborWorks America received AHC's FY '08 OMB Circular A-133 audit on February 2, 2010[17] (approximately 13 months and 10 months late by NFMC and OMB requirements, respectively.

- Subsequent to our exit teleconference, AHC provided Internal Audit with additional documentation for some client files that were not available for our review during the period of our test work. The additional documentation in our estimation did not satisfactorily resolve some of our initial observations.

- On February 7, 2010 AHC provided NeighborWorks America with an official notification that the organization formerly known as ACORN Housing Corporation has a new name, Affordable Housing Centers of America (AHCA). NeighborWorks America received notification that AHCA was now approved as a HUD intermediary on March 19, 2010.

- NeighborWorks America received FY '09 audited financial statements on March 31, 2010 approximately three months late by NFMC requirements. The report noted an unqualified opinion with a going concern disclosure. (b) (4) [redacted].

- NeighborWorks America received AHC's FY '09 OMB Circular A-133 audit on March 31, 2010, approximately three months late by NFMC requirements. The external auditors opined that AHC complied, in all material respects, with the requirements referred to that were applicable to each of the federal programs for the year ended June 30, 2009. There were no material weaknesses or significant deficiencies noted. There were no findings disclosed which were required to be reported in accordance with Section 510(a) of OMB Circular A-133. AHC completed the recommendation from the prior year's (FY '08) OMB Circular AMB A-133 review.

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[15] The NFMC Program and OMB Circular A-133 due dates for the submission of audited financial statements were 6 and 9 months, respectively after the fiscal year end.

16 See **Appendix A** for highlighted risk noted in FY'08 audited financial statements and OMB Circular A-133 report.

17 Ibid

II. BACKGROUND

A. History of NeighborWorks America

Created, established by Congress

NeighborWorks America is the nation's original community/public/private partnership model, with locally driven, efficient community development and the leveraging of public investment as its hallmark. The organization was created by Congress in 1978 as Neighborhood Reinvestment Corporation to provide financial support, technical assistance and training for community-based revitalization (P.L. 95-557). In April 2005, the corporation began doing business as NeighborWorks America.

Over the years, NeighborWorks America has developed a number of core competencies that continue to drive revitalization efforts nationwide in support of its mission to *create opportunities for people to live in affordable homes, improve their lives and strengthen their communities*. These core competencies include homeownership and affordable rental programs, professional training and certification, consumer counseling and education, rehabilitation of housing stock, outcomes measurement, home foreclosure prevention and intervention, and the training and empowerment of community residents.

The corporation is governed by a board of directors comprised of financial services industry regulators from the *Federal Reserve System*, *Office of the Comptroller of the Currency*, *Federal Deposit Insurance Corporation*, *Office of Thrift Supervision*, *National Credit Union Administration* and the *Department of Housing and Urban Development*.

As of January 1, 2010, the Members of NeighborWorks America's Board of Directors are:

Thomas J. Curry, Chair	Director, Federal Deposit Insurance Corporation
Julie L. Williams, Vice Chair	First Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency
John E. Bowman	Acting Director, Office of Thrift Supervision
Elizabeth A. Duke	Member, Board of Governors of the Federal Reserve System
Christiane Gigi Hyland	Member, Board of the National Credit Union Administration
David H. Stevens	Assistant Secretary, U.S. Department of Housing and Urban Development

The Officers of NeighborWorks America are:

Kenneth D. Wade	Chief Executive Officer
Eileen Fitzgerald	Chief Operating Officer
Michael Forster	Chief Financial Officer
Jeffrey Bryson	General Counsel/ Secretary

Mission and Strategic Goals

NeighborWorks America supports a network of more than 235 community-based organizations that meet revitalization and affordable housing priorities articulated by the community. NeighborWorks America provides the network with grants, programmatic support, training scholarships, and access to related capital corporations that facilitate financing of critical housing and community development activities in neighborhoods across the country.

Network organizations operate in more than 4,500 underserved urban, suburban and rural communities in 50 states, plus the District of Columbia and Puerto Rico. These communities serve as home to a diverse group of people who lack access to decent affordable housing, financial products, services, and the kind of equity investment that sustains communities.

In FY 2008, the NeighborWorks network generated $3.7 billion in investment and helped nearly 220,000 families of modest means purchase or improve homes or obtain safe, decent rental or mutual housing. The organizations also owned and managed more than 65,000 affordable rental housing units.

Operations and Governance

With eight district offices around the country, NeighborWorks America expands its reach and impact by supporting local network organizations under the district's umbrella — providing funding, technical assistance, and assessing the capacity of organizations to successfully manage their resources and programmatic risks.

Staff members serve thousands of NeighborWorks communities and residents through a variety of programs and community activities, and training and educational opportunities. In addition, more than 10,000 community development practitioners annually attend the NeighborWorks Training Institutes — interactive, specialized education conferences for industry professional and community development leaders. Thousands more improve their knowledge, skills and professionalism through web-based and "place-based" training.

Fighting Foreclosure

In 2005, NeighborWorks America expanded its homeownership expertise to include foreclosure prevention ─ creating the NeighborWorks Center for Foreclosure Solutions. This represented an unprecedented partnership between leading nonprofit organizations as well as state, local and federal agencies and members of the mortgage lending and servicing sectors.

Since then, NeighborWorks has continued to play a key role in fighting foreclosure. The organization was named by Congress in December 2007 to administer the National Foreclosure Mitigation Program (NFMC), a major initiative aimed at increasing the availability of foreclosure counseling services around the country.

B. History of the National Foreclosure Mitigation Counseling (NFMC) Program

Purpose of the Program

The NFMC Program was created by the Consolidated Appropriations Act of 2008 (P.L. 110-161) in December 2007 to address the subprime foreclosure crisis. The legislation named NeighborWorks America administrator of the $180 million program. On July 30, 2008, the Housing and Economic Recovery Act of 2008 (P.L. 110-289) appropriated an additional $180 million to the NFMC Program, including $30 million for legal assistance. An additional $50 million was appropriated to the program on March 11, 2009 through the Omnibus Appropriations Act of 2009 (P.L. 111-8) and an additional $65 million was appropriated on December 16, 2009 through the Consolidated Appropriations Act of 2010 (PL 111-117).

As of February 4, 2010 the NFMC Program has funded more than one million units of foreclosure mitigation counseling for 870,000 homeowners nationwide, and has funded 6,250 scholarships to housing counselors for foreclosure counseling training.

In total, $381.2 million has been awarded to 166 HUD-Approved Housing Counseling Intermediaries, State Housing Finance Agencies and NeighborWorks organizations through the NFMC Program to provide foreclosure counseling and legal assistance to troubled borrowers. In February 2008, $130.4 million was awarded in Round 1 grants to 130 eligible organizations. In December 2008, $177.5 million was awarded in Round 2 grants to 134 eligible organizations, with 54 of these organizations also being awarded $25.1 million in legal assistance funds. In October 2009, $48.2 million was awarded in Round 3 grants to 122 eligible organizations, and NeighborWorks expects to award at least an additional $59 million in April of 2010.

Legislative Requirements

The legislation included specific requirements to ensure the financial assistance was distributed expeditiously and to communities of greatest need across the nation that were affected by the subprime foreclosure crisis. Below are brief descriptions of those requirements and how they were met:

Requirement that at least $50 million be awarded within 60 days of enactment of the legislation: NeighborWorks held a competitive application process and met this deadline by awarding $130,438,408 to 130 Grantees on February 24, 2008. NeighborWorks reserved $37.4 million to award at a later date once performance and need could be further assessed.

Award Funding to Areas of Greatest Need: NeighborWorks was given statutory direction to "provide mortgage foreclosure mitigation assistance primarily to states and areas with high rates of defaults and foreclosures primarily in the subprime (Rounds 1 to 3) housing market." It consulted with experts and defined areas of greatest need based on numbers and percents of subprime and Alt-A delinquent loans, percent of subprime and Alt-A loans in foreclosure or real estate owned, and percent of overall loans that are subprime in metropolitan and micropolitan statistical areas. In all rounds, NeighborWorks America awarded more than 80 percent of the counseling units to defined MSAs of greatest need and states with rural areas of greatest need.

Increase Default Mitigation Counseling Capacity: The legislation allocated $5 million each to Rounds 1, 2 and 3 and $3 million in Round 4 to be used "to build the mortgage foreclosure and default mitigation counseling capacity of counseling intermediaries." With a strong training program in place, NeighborWorks utilized these funds to expand existing training opportunities and schedule new opportunities throughout the nation. The funding also enabled NeighborWorks to provide scholarships to staff of nonprofit housing organizations, municipalities and their partners to take foreclosure counseling and related courses at these events.

Grants to NeighborWorks Organizations: By statute, NeighborWorks America was permitted to award up to 15 percent of the NFMC funds to local NeighborWorks organizations (NWOs). NeighborWorks America certified that it did not demonstrate any conflict of interest in awarding grants to local NeighborWorks organizations.

Administrative Costs: As provided by statute, NeighborWorks America is using the 4 percent administrative allocation for designing, implementing, managing and evaluating the NFMC Program, including determining the program's overall structure, creating an effective and transparent application process, serving as steward of the appropriated monies, hiring staff to administer the program, purchasing software and web site design services to collect data on all clients counseled through the program, and competitively contracting with consultants to independently evaluate the program (b) (4) [redacted] and provide quality control and compliance monitoring (b) (4) [redacted] of all NFMC Program Grantees. Refer to Section IV "Grant Oversight Process" for further details.

NFMC Program Guidelines

The program guidelines including the use of funds made available, are explicitly disclosed in both the Grant Funding Announcement and resulting Grant Agreements. NFMC program funds may not be provided directly to lenders or homeowners to discharge outstanding mortgage balances or for any other direct debt reduction payments. NFMC funds must support the costs of the overall foreclosure program. If the cost of the counseling process is less than NFMC funding, Grantees are not required to return excess funds; rather, they must allocate those funds to their overall foreclosure program.

There are three categories of eligible activities: (1) Counseling; (2) Program-Related Support; and (3) Operational Oversight [for Intermediaries and State Housing Finance Agencies (HFAs) only.] These are defined in greater detail below. While applicants are encouraged to apply for what they believe they can use, NeighborWorks reserves the right to award less than the amount requested. When reductions in Counseling awards occur, proportional reductions in recommended Program-Related Support and Operational Oversight awards are made as well.

1) Counseling – All Applicants (HFAs, Intermediaries, and NWOs) are eligible for this component. Counseling can include a range of activities depending on the client's financial situation and the severity of the mortgage delinquency. Many clients in the early stages of delinquency may benefit from brief counseling sessions that result in an Action Plan they can follow to get back on track and prevent foreclosure. More complex workouts, involving negotiations with mortgage lenders or servicers, require staff with additional expertise and will take longer to resolve. Recognizing this, NeighborWorks has developed a two-tiered structure for defining and estimating the cost of counseling activity, as described below. For the purpose of projecting counseling budgets, the value of Level One counseling had been set at $150 and Level Two at $300 for Round 2.[18]

"Level One" Counseling: To qualify for a Level One payment ($150), a counseling agency will be required to complete all five of the following steps:

> a. Organization must conduct an **intake** including client name and address, basic demographic information, lender and loan information, and reason for delinquency. The National Industry Foreclosure Counseling Standards provide guidance on what should be included in an Intake Form.
>
> b. Organization shall collect a **signed authorization form from the client or have other legally-permissible client authorization on record** that will allow organization to: (1) submit client-level information to the data collection system for this grant, (2) open files to be reviewed for program monitoring and compliance purposes, and (3) conduct follow-up with client related to program evaluation. Clients may opt-out of (3) above only, but proof of this opt-out must be retained in the client's file. Organization must also allow client access to its privacy policy statement. NeighborWorks made a template authorization form available for Grantees to modify for their own use in instances where they did not already have such a form. Alternatively, Grantees may incorporate the language above into their existing authorization forms.

[18] During Round 1, the payment for Level 2 counseling was $200.

c. Organization must **develop a budget** for the client based on client's oral representation of their expenses, debts, and available sources of income.

d. Organization must develop **a written Action Plan** for follow up activities to be taken by the client to resolve the delinquency and review this Action Plan with the client. The National Industry Foreclosure Counseling Standards provide guidance on what should be included in an Action Plan. When developing this action plan, it is expected that the counselor will do a comprehensive analysis of the homeowner's situation and recommend the best plan of action. If the homeowner seeks counseling to determine whether he/she qualifies for the Making Home Affordable (MHA) Program, the counselor must work to determine the homeowner's eligibility before completing the Level One session. If the homeowner seeking counseling does not ask about the program, it is expected that the Level 1 session will include a screening for eligibility. Documentation that a screening occurred should be included in the Action Plan or client file.

e. Organization must determine and document if client is eligible for a MHA Program refinance or modification.

MHA Refinance. Organization must determine and document eligibility by asking client if: (1) client is the owner occupant of a one- to four-unit home; (2) client's loan is owned or guaranteed by Fannie Mae or Freddie Mac – counselor will verify this by checking the GSE's web look-up tools; (3) client is current on mortgage (client has not been more than 30 days late on mortgage payment in the last 12 months, or, if client has had the loan for less than 12 months, he/she has never missed a payment); (4) the amount client owes on the first mortgage is 125 percent or less of the house's current value; (5) client has income sufficient to support the new mortgage payments; and (6) the refinance improves the long-term affordability or stability of the loan.

MHA Modification. Organization must determine and document eligibility by asking client if: (1) the mortgage loan is a first lien mortgage loan originated on or before January 1, 2009; (2) the mortgage has not been previously modified under the Home Affordable Modification Program (HAMP); (3) the mortgage loan is delinquent or default is reasonably foreseeable; (4) the property securing the mortgage loan is not vacant or condemned; (5) the mortgage loan is secured by a one- to four-unit property, one unit of which is the borrower's principal residence; (6) client's current monthly mortgage payment ratio is greater than 31 percent; and (7) the current unpaid principal balance of the mortgage is less than $729,750 for a one-unit property, $934,200 for a two-unit property; $1,129,250 for a three-unit property; and $1,403,400 for a four-unit property.

MHA FHA Loans. Organization must determine and document eligibility by requesting information and analyzing if: (1) the client is the owner of a one- to four-unit home; (2)

the client is less than 12 payments behind on their mortgage; (3) client has income sufficient to support the new mortgage payments; and (d) with the modification, the client's front-end DTI will be more than 31 percent% and their back-end DTI will be less than 55 percent.

When billing for Level One activities, **all** five of these completed documents must be in the client file: intake, authorization form, budget, Action Plan and MHA eligibility determination. Intermediaries and State HFAs are responsible for ensuring proper documentation exists in client files at each of their Sub-grantee or Branch offices.

"Level Two" Counseling: To qualify for a Level Two payment ($300)[19], a counseling agency will be required to complete the following four steps:

a. Engage in **budget verification** during which the counselor reviews documented evidence provided by the client to establish true debt obligations (e.g., credit report), monthly expenses (e.g., monthly bills and banks statements) and spending patterns, and realistic opportunities for income (e.g., returns and pay stubs).

b. If not already on file, organization shall collect a **signed authorization form from the client or have other legally-permissible client authorization on record** that will allow agency to: (1) submit client-level information to the data collection system for this grant, (2) open files to be reviewed for program monitoring and compliance purposes, and (3) conduct follow-up with client related to program evaluation. Clients may opt-out of (3) above only, but proof of this opt-out must be retained in the client's file. Organization must also allow client access to its privacy policy statement. NeighborWorks will make a template authorization form available for Grantees to modify for their own use if they do not already have such a form. Alternatively, Grantees may incorporate the language above into their existing authorization forms.

c. Steps to obtain a solution outlined in the **written Action Plan** are taken and documented using counseling notes that indicate date counseling occurred. This could include but is not limited to the following:

(1) Draft and submit to the servicer a hardship letter that describes the client's situation, reason for delinquency, factors that should be considered when developing a workout plan, and an estimate of the housing cost the client can afford to pay;

(2) Document an attempt to contact the servicer or lender and, if a workout is possible, fill out and submit forms required by the servicer to move forward with a workout plan, loan modification or other available program. NeighborWorks will endeavor to post e-mail contact information for servicers who have made

[19] See Footnote 17.

such information available on the www.nw.org/nfmc website so documentation of attempts to reach servicers is easily captured;

(3) Complete and submit application for local resource options including refinance programs or rescue funds; and

(4) Assist in situations where client elects to pursue sale options.

d. Close-out documentation is completed. For purposes of this grant, "close-out documentation" refers to the documentation of steps taken in (c) above in order to report this client as having received Level Two counseling. All files need to contain reason for close out and, if applicable, any documentation demonstrating solution. Client data may be uploaded into the data collection system before an outcome is reached, as long as close-out documentation for NFMC reporting purposes is in client file.

When billing for Level Two activities, **all** of these completed documents must be in client file: authorization form, verified budget, documentation of steps taken based upon Action Plan, and close-out documentation. Intermediaries and State HFAs are responsible for ensuring proper documentation exists in client files at each of their Sub-grantee or Branch offices.

2) Program-Related Support – All Applicants (State HFAs, Intermediaries and Housing Counseling Agencies [HCAs]) are eligible for program- related support. Applicants will receive a flat 20 percent of their counseling request for Program-Related Support. If the Applicant does not wish to use the full 20 percent on Program-Related Support, it can use these funds to provide additional NFMC Program counseling. A plan for use of these funds, including the estimated costs of major line-item budget items, must be included with the application and it is expected that these funds shall be used to increase foreclosure program efficiencies. State HFAs and Intermediaries must pass through the full 20 percent to their Sub-grantees or Branches, unless they justify how retaining a portion of this support will have a timely and positive impact on the capacity of local Sub-grantees to conduct foreclosure mitigation counseling. If such a plan is submitted and justified, no more than 50 percent of the funds allocated under this section can be held at the Intermediary or State HFA level. These funds are not intended to cover administrative costs; rather, they are meant primarily to support direct costs associated, as much as possible, with increasing the effectiveness and efficiency of Sub-grantees' or Branches' ability to provide quality foreclosure counseling.

Eligible uses of Program-Related Support include but are not limited to:

- Establishing a triage system that makes more effective and efficient use of counseling time so counselors are not scheduling and reserving time with clients seeking help with situations not related to mortgage and home foreclosure. Triage can also ensure that clients are better prepared for the counseling session – they have gathered documents and information, for example.

- Outreach to delinquent clients, especially in areas of greatest need. The earlier a delinquent homeowner reaches out for assistance, the more probable the success. Outreach strategies to encourage delinquent homeowners in Applicant's communities to come for assistance well before the foreclosure notice is received are encouraged.
- Group orientation and education sessions to help use counseling time more effectively. Registering attendees, preparing for and delivering these sessions are all eligible uses.
- Infrastructure development and communication.
- Improving Grantee capacity and infrastructure for tracking and reporting data.
- Costs related to hiring, orienting, and training new counseling staff.
- Purchasing or leasing equipment and software for counselors.
- Collecting data and preparing quarterly reports and draw requests.
- Quality control of the counseling function.

Applicants may contract out part or all of the activities proposed under Program-Related Support, but they will be asked to demonstrate that their subcontractors have the required experience and expertise.

3) Operational Oversight – Only Intermediaries and State HFAs are eligible for this component. Intermediaries and State HFAs will also receive funding for Operational Oversight which would cover any quality control, day-to-day oversight and management of this grant award, and any improvements to systems and infrastructure required. These funds are determined as follows: 7 percent of the first $2.5 million requested under the Counseling category (or up to $175,000), and 5percent of any amount over $2.5 million. If Applicant does not wish to use the full percentage on Operational Oversight, it can use these funds to provide additional NFMC Program counseling.

Making Home Affordable/Post-Mitigation Counseling

In addition to the funding categories described above, the National Foreclosure Mitigation Program allows Grantees to use up to 30 percent of its Counseling Awards to fund "Level Four," or post-mitigation, counseling.

Borrowers who qualify for Making Home Affordable loan modifications by having back-end debt-to-income ratios at or above 55 percent will receive trial loan modifications from participating servicers and be referred by the servicers to a HUD-approved housing counseling agency or NFMC Program participating agency. A detailed protocol describing the required

components of this counseling is found at
http://www.hud.gov/offices/hsg/sfh/hcc/hcc_home.cfm.

If a borrower contacts a counseling agency for counseling without having received a Making Home Affordable trial loan modification and being referred by a servicer, and it is determined the borrower may be eligible for the loan modification program, the counselor will work with the borrower to submit an intake package to the servicer. This counseling must conform to Level Two counseling requirements, as established under the NFMC Program. If the borrower does receive the Making Home Affordable modification and is referred back to the counseling agency because the back end debt-to-income ratio is equal to or greater than 55 percent, the agency can also provide the borrower with Level Four counseling.

There were other program requirements which were related to the NFMC program which can be found in **Appendix B**.

C. NeighborWorks America's Office of Internal Audit

Independence and Authority

The Internal Audit Office of NeighborWorks America reports functionally to the Audit Committee of the Board of Directors, and administratively to the Chief Executive Officer. The independence and authority derived from this organizational status facilitates the Internal Audit Office's ability to provide impartial and unbiased judgments, which is essential to the proper conduct of audit engagements.

Internal Audit Charter

A comprehensive document which further expands upon the independence and authority of the internal audit function in NeighborWorks America is codified in the Internal Audit Charter, which can be found in **Appendix C**.

External Quality Assessment

The Internal Audit Office of NeighborWorks America successfully completed an external quality assessment conducted by the Institute of Internal Auditors[20] in May of 2007. This was in recognition of its conformity with the IIA's International Standards for the Professional Practice of Internal auditing.

Reporting Standards

The activities and procedures for this report were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors.

NFMC Risk Assessment and Internal Audit Plan

Internal Audit conducted a corporate-wide risk assessment in April 2008 and selected audit projects related to the National Foreclosure Mitigation Counseling (NFMC) Program. The Internal Audit Plan was developed through a collaborative planning approach conducted with NeighborWorks America's officers and senior management. A formal risk assessment process identified, measured and prioritized the potential risks associated with all NFMC activities. The document may be viewed at **Appendix D**.

20 Internal Audit functions are required to conduct a Quality Assessment exercise every five (5) years. The last exercise for NeighborWorks America was conducted by the Institute of Internal Auditors in 2007.

III. REQUEST, OBJECTIVES AND SCOPE OF INTERNAL AUDIT INVESTIGATION

Internal Audit received a letter dated September 21, 2009 from the office of the Chairman of the United States Senate Committee on Banking, Housing and Urban Affairs which requested the Offices of the Internal Audit Director of NeighborWorks America and the Inspector General of the U.S. Department of Housing and Urban Development investigate the use by ACORN Housing Corporation, Inc. (AHC) of NFMC Program funds and HUD housing counseling funds, respectively. This report is specifically and exclusively focused on NFMC Program funds.

A. Summary of Issues Requested for the Audit Investigation

Based on the letter referred to above, a summary of the issues to be examined during the investigation was formulated, to include the following elements:

- AHC's use of NFMC Program funds
- Whether the NFMC funds were used in accordance with the legislation and program requirements and applicable regulations
- The adequacy of training and supervision for AHC's housing counseling employees
- The effectiveness of AHC's oversight and controls that would provide assurance on the observance of policy directives
- The results of any past Internal Audit reports on AHC for program compliance
- Programmatic data on AHC's performance under the NFMC Program, to date

These elements were used to develop our Audit Project Objectives and Scope.

B. Audit Objectives and Scope of the Investigation

Based on the contents of the letter referenced above, the following audit objectives were derived as follows:

1. To obtain assurance on the appropriate use of NFMC program funds by AHC, its consistency and compliance with the law and program guidelines, including the adequacy of its existing control environment;

2. To provide an evaluation of AHC's foreclosure counseling performance to date; and

3. To review and report on the steps recently announced by AHC to address the recent problems that have surfaced and provide any additional recommendations that may be needed.

The scope of the audit is primarily related to the following:

1. NFMC Grant Application and Review Process

2. Usage of NFMC Program Funds
3. Consistency and Compliance with Program and Legislative Guidelines
4. AHC's Compliance to Date Under NFMC Program
5. Training and Supervision of AHC Employees
6. Adequacy of AHC's Organizational Oversight and Controls – Accounts Payable and Procurement Function
7. AHC's Response to the Release of Video Tapes[21]

C. Scope Limitations

During the period of our audit investigation, the financial information reviewed was solely related to AHC, Inc. Audited consolidated financial statements for fiscal years 2008 and 2009 were not available for our review from the date of our introductory meeting November 4, 2009 through January 7, 2010, the last day of our fieldwork. It is important to note that the vast majority of AHC's NFMC activity occurred in FY 2009. Based on our review and understanding, NFMC funds were only granted to AHC Inc., and none of its subsidiaries (Arizona AHC Inc., AHC of Missouri Inc., AHC of Pennsylvania Inc. and Texas AHC Inc.) were recipients of the NFMC program funds.

We conducted tests on client files submitted for payment to NeighborWorks America to obtain assurance that they met with the NFMC program guidelines and other regulatory requirements. These tests were conducted at the Chicago headquarters office of AHC and six branch offices located around the country (Baltimore, Maryland; Chicago, Illinois; Los Angeles, California; Miami, Florida; New York, New York; Phoenix, Arizona and St. Paul, Minnesota). We also conducted test work remotely for several AHC branch offices (Fresno, California; Orlando, Florida; San Jose, California; Springfield, Massachusetts; Tampa, Florida and Washington, DC).

Furthermore, since we could not fully rely on AHC's unaudited financial reports of NFMC funds, related testing on actual expenditures of NFMC funds was limited. We encountered challenges in numerous revisions of historical financial data presented to us by AHC. We limited our test work on financial operations to vendor contracts over $25,000. AHC was unable to produce complete and reliable listings of transactions related to the Round 2 client referral contract with Association of Community Organizations for Reform Now (ACORN) of (b) (4) [redacted]. As a result, we were limited in our ability to select a proper and sufficient sample of this data.

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21 The reference to the release of the ACORN video tapes is in no way connected to the NFMC Grant program. Three of the AHC branch offices were involved in the incident. See Section XI of this report.

22 We, however, were able to conduct some test work on Round 1 client referral contracts with ACORN.

IV. GRANT OVERSIGHT PROCESS

NeighborWorks America, as Administrator of the NFMC Program, implemented a number of administrative activities in order to provide the assurance of a system of effective corporate governance over the NFMC Program. These administrative activities related to the NFMC program include: quality control and compliance, program evaluation, internal audit reviews, Board oversight, and budget and cash management.

A. Quality Control and Compliance

[redacted], a CPA firm based in [redacted], was contracted to provide third-party compliance monitoring of the NFMC program, and has completed its Year 1 compliance monitoring of NFMC Program Grantees and applicable sub-grantees, and will be embarking on a Year 2 review during calendar year 2010. This monitoring includes reviewing selected aspects of Grantee compliance with their Grant Agreement and mandatory certifications; delivery of counseling services; financial transparency (separate budget tracking, expenditure verification, review of financial statements, etc.); compliance with program requirements, including record retention and adequate insurance coverage; appropriate Sub-grantee oversight; verification of service delivery through clients reported to the program; and quality of counseling services provided.

During the Year 2 reviews, [redacted] will review all NFMC Program Round 2 and Round 3 Grantees and several Sub-grantees. Of these reviews, approximately 120 will be conducted remotely. The remaining reviews will be conducted on-site with approximately 30 Grantees and a sample of their Sub-grantees, if applicable, selected through a risk rating system that took into account size of award, years of experience providing foreclosure counseling, findings from OMB Circular A-133 reviews, litigation disclosures, prior compliance findings and other factors. [redacted] will also oversee efforts to ensure that counseling services provided met the requirements of the NFMC Program and adhered to the National Industry Standards for Homeownership Education and Counseling – Foreclosure Intervention Specialty. Its consultants will conduct site visits to approximately 30 Grantees to observe counseling sessions, counselors' interaction with clients and appropriateness of counselors' recommended action plans or work-out solutions. The consultants will also review case files from Grantees to ensure proper advice and work-out plans were delivered. [redacted] report is due to NeighborWorks America in the summer of 2010 and findings will be addressed to ensure the quality of counseling provided through the NFMC Program.

B. Program Evaluation

NeighborWorks America competitively awarded a contract to the [redacted] to conduct a multi-year evaluation of the NFMC Program design and the impact of NFMC foreclosure counseling. The [redacted] previous two reports were provided to Congress as part of earlier NFMC Program Reports to Congress.

The [redacted] has now provided NeighborWorks with a third report, which presents the results of preliminary analyses that attempt to measure the effects of the NFMC Program on counseled homeowners. This report was included in the November 2009 NFMC Report to Congress. Information on its findings can be found in the [redacted] Interim Report section of that report.

Overall, management has indicated from the [redacted] analysis of the NFMC Program finds that the program is having its intended effect of helping homeowners facing loss of their homes through foreclosure. In subsequent analyses, to be presented in its evaluation final report, the [redacted] will estimate the program's impact on clients who received counseling services in 2009 and also observe loan performance over a longer period of time, which will allow for a better measurement of the overall success of the NFMC Program.

C. External Audit

NeighborWorks America's 2008 financial performance culminated in audit results demonstrating its overall commitment to the highest standards in fiscal accountability. The NFMC Program was NeighborWorks' single largest revenue and expenditure source in 2008, and was therefore extensively tested. The corporation continued its longstanding trend, with its annual audit reports including an unqualified (or "clean") opinion for the financial statements in their entirety, including those of the NFMC Program, as well as the OMB Circular A-133 compliance audit. Additionally, for the fourth consecutive year the corporation did not receive a management letter. For context, an audit management letter contains observations and recommendations related to internal controls where improvements should be made, but such observations are not required to be contained in the audit report and do not alter the auditor's overall opinion. Comparatively, most organizations (approximately 80 percent to 85 percent, by many industry measures) receive a management letter from their external auditors.

D. Board Oversight

NeighborWorks America has an active Board of Directors[23], which consists of senior leadership of the federal banking regulatory agencies and the U.S. Department of Housing and Urban Development. The NFMC Program is a standing agenda item on the regular quarterly Board meetings as well as meetings of the board's Finance, Budget and Program Committee, and the Audit Committee. Officers of the Corporation, NFMC Program staff, and Internal Audit provide written and oral reports to the Board at each meeting, respond to Board members' questions and receive input and direction during these meetings.

23 See Section II. A. for a listing of NeighborWorks America's Board of Directors

E. Internal Audit

NeighborWorks America's Internal Audit team, reporting directly to the NeighborWorks Board of Directors, continues to audit various aspects of the NFMC Program. This includes individual audits of the following ten areas of the program: compliance with legislative and program requirements; quality control of counseling services; outsourced Data Collection System; production and quarterly reporting; grant recapture; program design, scoring and funding recommendations; complaint management; staffing and management of outsourced services; grant disbursement and related accounting; and non-grant expenditures, related and miscellaneous accounting. A copy of the Internal Audit Plan designed specifically for the NFMC Program has been attached to this report as **Appendix D**.

F. Budget and Cash Management

In accordance with prescribed uses of the NFMC funds as outlined in P.L. 110-161, P.L. 110-289. P.L. 111-8, and P.L. 111-117 (including grants, training, administrative expenses, legal assistance grants, etc.), NeighborWorks America prepared, and continues to monitor on an on-going basis, a comprehensive program budget for the NFMC Program indicating the breakdown and summary of planned costs by major program and cost category. The budget serves as a key financial control to manage all NFMC program expenditures. Additionally, separate bank accounts were instituted for NFMC program funds, to effect a clean segregation of funds for management activities and fiscal accountability. Finally, various components of the NFMC program design also incorporate internal and program control elements that help effect a proper balance of risk management between the program objectives and financial oversight. Each of these considerations reflects the overall commitment to preserving the high quality that NeighborWorks America maintains with regard to its financial management function.

V. APPLICATION AND REVIEW PROCESS

A. Eligible Applicants

Pursuant to the legislation establishing and funding the NFMC program, there were three categories of eligible Applicants for NFMC funding, as follows:

1. **Intermediaries** that have been approved as Housing Counseling Intermediaries by HUD on or before the corresponding application due dates.

2. **State Housing Finance Agencies (State HFAs).**

3. **Existing chartered members of NeighborWorks America that were housing counseling agencies (NeighborWorks Organizations - NWOs).** Local housing counseling agencies who were not NWOs could not apply directly, but must instead apply through an Intermediary or State HFA as described in number 1), above.

All applicants must have had Demonstrated Experience in delivering foreclosure intervention and loss mitigation counseling services. AHC Inc. was eligible to apply for NFMC funding as a HUD-approved housing counseling intermediary.

B. Eligible Activities

No funds made available under the National Foreclosure Mitigation Counseling Program were to be provided directly to lenders or homeowners to discharge outstanding mortgage balances or for any other direct debt reduction payments.

Furthermore, in Round 2, no funds made available through the Funding Announcement were to be distributed to: (1) an organization which has been indicted for a violation under federal law relating to an election for federal office; or (2) an organization which employs applicable individuals[24]. Applicants had to certify that their statements were true and would be committing fraud if such certified statements were found to be untrue.

There were three categories of eligible activities: (1) Counseling; (2) Program-Related Support; and (3) Operational Oversight (for Intermediaries and State HFAs only.) Furthermore, a Legal Assistance component (described further below) was incorporated for Round 2.

Applicants for NFMC funding were required to complete an online application, using NeighborWorks America's grant management system, GrantWorks. No hard-copy paper

24 Applicable Individuals means an individual who (a) is employed by the organization in a permanent or temporary capacity; contracted or retained by the organization; or acting on behalf of, or with the express or apparent authority of, the organization; and (b) has been indicted for a violation under Federal law relating to an election for Federal office.

applications were accepted. The application utilized short answer sections, charts, and templates to help expedite the application process.

C. NFMC Application Evaluation Process

In order to promote a fair and balanced NFMC grant application evaluation process, NeighborWorks America established review teams (which consisted of a combination of internal and external reviewers) to evaluate applications for all funding rounds.

External reviewers were recruited to evaluate applications for all funding rounds. They were either consultants or loaned staff from the U.S. Department of Housing and Urban Development, the U.S. Treasury Department's Community Development Financial Institutions Fund*, the Federal Deposit Insurance Corporation, the Federal Reserve, Freddie Mac*, and the U.S. Department of Health and Human Services*.

The ratio of internal (NeighborWorks America) staff to external reviewers was 2:1 (two internal, one external reviewer) for evaluation of applications from NeighborWorks organizations and 1:2 (one internal, two external reviewers) for evaluation of applications from HUD approved Housing Counseling Intermediaries and State Housing Finance Agencies (HFAs). Additionally, a NeighborWorks staff member was assigned to serve as a Team Lead for each review team, to synthesize reviewers' comments, facilitate discussion, and help the team to arrive at consensus around scoring decisions. The Team Lead did not score the applications.

To ensure that applications were scored using the same objective criteria, all Team Leads and reviewers were provided a Reviewer's Manual which contained a rubric for scoring and guidelines for determining final award amounts. Team Leads and reviewers all participated in training before they reviewed applications to ensure they understood the rubric, the program design, and the scoring guidelines. In Round 1, representatives from two of NeighborWorks Board agencies attended these trainings as observers.

Each reviewer scored the applications independently and the Team Leads scheduled a conference call where reviewers discussed their scores and came to consensus on a recommended funding amount. Representatives from two of NeighborWorks' Board agencies participated in these calls as observers.

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* Reviewed Round 1 applications only

Internal Audit delivered a report on compliance of the NFMC application and review process with the legislative and program requirements of the NFMC program, as part of its oversight responsibilities in November 2008.

Throughout the process, the same standards, criteria and review process were employed for NeighborWorks organizations and Intermediary/HFA applications. The process only varied to the extent that certain criteria for Intermediaries and HFAs were not relevant for NeighborWorks organizations. The rubrics were very similar – differing only by the questions related to oversight, quality control and program administration that would be required by the additional function of an intermediary or housing finance agency as a grantee with sub-grantees. To compensate Intermediaries and HFAs for this additional responsibility, these applicants could apply for an operational oversight budget line item. The NeighborWorks organizations were not eligible for the operational oversight funding, as they do not oversee a network of sub-grantees.

A detailed description of the rating factors for each application round is provided in **Appendix E**.

D. Summary of AHC's Application Process, Award Decisions and Announcements

ACORN Housing Corporation (AHC) submitted applications requesting NFMC grant funds for the first three Rounds of the NFMC program but was awarded funds in only Rounds 1 and 2.

- *NFMC Round 1 (Grant Term: 2/24/2008 – 12/31/2008, later extended through 6/30/2009)*

As a HUD-approved housing counseling intermediary, AHC was eligible to apply for NFMC funding related to counseling activities, program-related support and operational oversight. The application review process for AHC's Round 1 application was consistent with that employed for all other NFMC applications.

Through our review of NeighborWorks America's grant management system, GrantWorks, we found that AHC applied for a total of [redacted] (b) (4) (across all Eligible Activities) in connection with the Round 1 application process, and was awarded $7,850,939.00 directly by NeighborWorks America. As of January 23, 2010, AHC had expended 100 percent of its direct Round 1 counseling grant award.

- *NFMC Round 2 (1/1/2009 – 12/31/2009, later extended through 6/30/2010)*

According to NeighborWorks America's grant management system, GrantWorks, AHC applied for a total of [redacted] (b) (4) (across all Eligible Activities) in connection with the Round 2 application process, and was awarded a total of $17,200,000 directly by NeighborWorks America, as follows:

- $16,000,000.00 was provided for housing counseling activities, program-related support and operational oversight; and

- An additional sum of $1,200,000.00 was awarded to AHC to fund and support Legal Assistance activities.

The audit report AHC submitted for Round 2 as part of the application requirements was for its fiscal year ended June 30, 2007 with a report date of August 1, 2008 which was consistent with the application requirements. AHC was placed on a provisional draw schedule[25] for Round 2 of the NFMC program due to audit findings in the OMB Circular A-133 component of the audit report.

➢ *NFMC Round 3 (7/1/2009 – 6/30/2010)*

According to NeighborWorks America's grant management system, GrantWorks, AHC applied for a total of (b) (4) (across all Eligible Activities) in connection with Round 3. The audit AHC submitted with its Round 3 application was again for its fiscal year end June 30, 2007 with the report date of August 1, 2008 (as opposed to that for the fiscal year end June 30, 2008).

NeighborWorks America withheld a decision on funding for ACORN Housing Corporation due to restrictive language that appeared in the Continuing Resolution (CR) on funding for most federal programs at FY 2009 levels until October 31, 2009[26]. Therefore, NeighborWorks America did not award ACORN Housing Corporation (AHC) funds for Round 3 of the NFMC Program on October 1, 2009 when the award announcements were made. Subsequently, following the court decision which declared the CR ruling as unconstitutional, funding was not awarded due to the compliance deficiencies in existence at the time which was the non receipt of AHC's audited financial statements and OMB Circular A-133 audit report for FY 2008.

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[25] The draw schedule is designed to provide Applicants with sufficient up-front funds to strengthen their counseling capacity, while linking future draws to achievement of counseling goals. A provisional draw schedule may be issued by NeighborWorks America in order to adjust individual Grantees' draw schedules and amounts if funds are being expended more slowly than projected, or if audit reviews provide reason for a more conservative draw schedule to be implemented.

26The CR states, "None of the funds made available by the CR or any prior Act may be provided to the Association of Community Organizations for Reform Now (ACORN), or any of its affiliates, subsidiaries, or allied organizations."

VI. NFMC'S AWARDS, DISBURSEMENTS AND PAYABLES TO AHC

As referred to above, the NFMC Funding Announcements define funding categories and grant awards with specific budgetary allocations in terms of its three eligible activities, i.e.:

- Counseling
- Program-Related Support (PRS)
- Operational Oversight

Thus, awards to all grantees are specified in terms of dollar values allocated to each of these eligible activities.

A. Awards

AHC was awarded more than $26.5 million across NFMC Rounds 1 and 2, comprising grants issued directly by NeighborWorks America and indirectly by various State HFAs[27]. See **Figure 1** below.

Within this $26.5 million and according to NeighborWorks America's grant management system, GrantWorks, AHC was awarded approximately $7.85 million directly by NeighborWorks America during Round 1 and an additional amount of $1.3 million in funding from the HFAs. $16 million was directly awarded by NeighborWorks America in connection with Round 2, plus an additional sum of $1.2 million to fund and support Legal Assistance activities. In addition to these amounts in Round 2, AHC also received grant awards for NFMC Round 2 funding of $156,629 from HFAs.

According to NeighborWorks America grant management system, GrantWorks, AHC also applied for a total of (b) (4) (across all Eligible Activities) in connection with Round 3. NeighborWorks America withheld a decision on funding for ACORN Housing Corporation due to restrictive language that appeared in the Continuing Resolution (CR) on funding for most federal programs at FY 2009 levels until October 31, 2009[28]. As of the date of completion of our fieldwork January 7, 2010, no decision had been made, and as a result, AHC did not receive any NFMC grant funds for Round 3.

NFMC's awards, disbursements and accrued payables in connection with AHC are summarized as follows:

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27 It should be noted that a total of $986,665 was later de-obligated or rescinded by NeighborWorks America and two of the HFAs.

28The CR states, "None of the funds made available by the CR or any prior Act may be provided to the Association of Community Organizations for Reform Now (ACORN), or any of its affiliates, subsidiaries, or allied organizations."

NFMC Awards, Disbursements and Payables to AHC at 23 Jan 2010[1]

Category	Awards					NFMC Disbursements (+ Accrued Payables)					Award % Billed
	Round 1	Round 2	Legal	Total	Percent	Round 1	Round 2	Legal	Total	% of Mix	
NFMC Direct Awards:	[redacted] (b) (4)										
Counseling Funds											
Program-Related Support											
Operational Oversight											
Legal Assistance											
Subtotal Direct Awards from NWA											
HFAs:											
Connecticut HFA											
SONYMA (New York)											
Florida											
Missouri [2]											
Illinois [3]											
Minnesota											
New Mexico Mortgage Finance Authority [4]											
California HFA (Rural Comm. Assist. Corp.)											
Pennsylvania HFA											
Subtotal - Awards from HFAs											
Total NFMC Grants to AHC											
Less De-Obligations, Rescissions & Recaptures											
Net NFMC Awards to AHC	8,768,515	16,156,629	600,000	25,525,144		8,834,164	11,530,594	123,573	20,488,331		80.3%

Notes:
1 Based on informations available to NWA Management and from State HFA's.
2 Missouri Housing terminated the grant to AHC and de-obligated 94% of the award because it concluded that AHC's performance was not in compliance with the agreement.
3 Illinois HFA de-obligated its full award after AHC withdrew its participation prior to execution (no payments were effected).
4 New Mexico MFA states that it did not execute its intended award to AHC because AHC was not in compliance with state laws regarding non-profit registration in New Mexico.

Figure 1 – Breakout of Awards, Disbursements and Payables to AHC, at January 23, 2010[29].

B. Disbursements and Payables

As of January 23, 2010, the NFMC Program had disbursed (or accrued payables of) $20.49 million across Rounds 1 and 2 in connection with AHC, comprising approximately $8.83 million in Round 1 funds (of which $964,922 was paid through HFAs), $11.53 million in Round 2 funds (of which $137,194 were via HFAs) and roughly $123,573 in Legal Assistance funds.

Thus, by that date, AHC had reported expenditures of 80 percent of its combined NFMC awards (101 percent and 71 percent of its Round 1 and Round 2 awards, respectively). It should be noted, however, that Round 2 activity slowed significantly in recent months. On October 1, 2009, NeighborWorks America notified AHC that it should cease performance on its current contract (NFMC Round 2), except for counseling and legal assistance work with existing clients[30] until the implications of the restrictive language in the Continuing Resolution (CR) on funding for most federal programs at FY 2009 levels until October 31, 2009[31] were clarified.

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[29] The source of the "Subgrantee Awards from HFAs" were provided by each of the HFA's referenced above.

30 Existing clients was defined as clients for whom intake was completed on or before September 30, 2009.

31 The CR states, "None of the funds made available by the CR or any prior Act may be provided to the Association of Community Organizations for Reform Now (ACORN), or any of its affiliates, subsidiaries, or allied organizations."

VII. AHC'S COMPLIANCE WITH FINANCIAL REQUIREMENTS

As part of our audit we planned to conduct a review of AHC's audited financial statements within the following guidelines:

a. Compliance with program and financial reporting requirements
b. Compliance with submission of audited annual reports, financial statements and any other required reports;
c. Compliance of transactions to applicable and relevant provisions of OMB Circular A-133
d. Outstanding deficiencies or pending requests

Observations

Noted below were our observations:

A. Late Submission of Audited Financial Statements and A-133 Report

Criteria

In accordance with NFMC program requirements "applicants must have completed an independent audit[32] within six months of the completion of their most recent fiscal year, which must be submitted along with their application, unless NeighborWorks America has the most recent audit on file from a previous application. Audits should be less than two years old."

In addition, the NFMC program requires adherence to OMB Circular A-133 which requires that nonfederal entities that expend $500,000 or more of federal awards in a fiscal year should have a single or program-specific audit undertaken.

Condition

ACORN Housing Corporation submitted audited financial statements for the fiscal year ended 2006 as part of its initial application for NFMC Round 1 funds grant award cycle period (2/24/08-12/31/08). AHC audited financial statements for the fiscal year ended 2007 were submitted by AHC for application Rounds 2 and 3; grant cycle periods (1/1/09-12/31/09) and (7/1/09-6/30/10) respectively, for funds to be disbursed in 2009. AHC's 2007 OMB Circular A-133 compliance report had a number of material weaknesses and significant deficiencies at the time. See **Appendix F.** In order to mitigate the associated risks potentially identified with these deficiencies, NeighborWorks America placed AHC on a reimbursable draw schedule for Round 2 only. AHC's audited financial statements for Round 3 were not presented in its application, as required. Instead, AHC resubmitted its 2007 audited financial statements pending the submission

32 An independent audit consisted of audited Financial Statements, Management Letter (if any) and OMB A-133 compliance report.

and completion of its FY 2008 audited financial statements, which were not received by NeighborWorks America until February 1, 2010.

As of January 31, 2010, AHC was 13 and 10 months late by the NFMC Program and OMB Circular A-133 requirements, respectively, in the submission of financial statements for the fiscal year ending 2008. Also as of January 31, 2010, AHC was late by the NFMC Program requirement in the submission of its audited financial statements for the fiscal year 2009 and could also be in violation of the OMB Circular A-133 by March 31, 2010, if the audited financial statements for the year ended 2009 are not filed with the Federal Audit Clearinghouse and received by NeighborWorks America. As of the close of our fieldwork on January 7, 2010 we had not received the audited financial statements of AHC for the fiscal years ending in 2008 or 2009[33].

Cause

We have determined that AHC lacks the accounting capacity to manage the size and complexity of the NFMC program funds (approximating $25 million, provided over the Round 1 and 2 periods), [redacted]. The transition to a new accounting package, [redacted], with which the staff were unfamiliar and the disengagement of services with Citizens Consulting Inc. (CCI) in 2007, an organization based in the state of Louisiana and formerly responsible in prior years for its payroll and accounting function, were identified factors for the lack of accounting capacity.

The transition commenced with the hiring of an in-house Controller in 2007 and the engagement of staff from the offices of [redacted] in mid-2008 to provide supervision in the transition of all accounting functions in-house to AHC. One of the tasks of the accounting firm contracted to implement the transition was to also train an in-house Grant Accountant to supplement the activities of the Controller in AHC's effort to build up its finance function. Even though the transition was largely completed in July 2008, the accounting firm of [redacted] is still present and coordinating AHC's efforts to complete its audited financial statements.

AHC also informed us that another cause for the delay of its audited financial statements was due to the publicity surrounding the release of videotapes of AHC employees engaging in inappropriate homeowner counseling in September 2009. This led AHC's external auditors to conduct an extended audit, further delaying production of the financial statements. However, in spite of that statement it should be noted that the 2008 financial statements were already past due, according to programmatic and OMB reporting requirements, prior to when these videotapes were released.

33 Internal Audit received from AHC their audited statements for the fiscal years 2008 and 2009 on February 1, 2010 and March 31, 2010, respectively, at the time of drafting this report.

Effect

These transitions, in the face of the development of the financial and accounting functions, have, in our opinion, significantly contributed towards the delay in the submission of timely audited financial statements. As a result of the absence of audited financial statements for two consecutive fiscal years (2008 and 2009), and notably for 2009 for which the majority of the NFMC program funds were expended, we are unable to conclusively obtain a satisfactory level of assurance as to the general use and management of NFMC program funds. It has also resulted in a technical violation of the OMB Circular A-133 requirement of sub-recipient audits (on the submission of audited financial statements for the period ending June 30, 2008 and 2009) and a breach of the Grant award entered into with NeighborWorks America, which required their submission within six months of the most current fiscal year.

Recommendation

We recommend that AHC provide audited financial statements for the fiscal years ending 2008 and 2009, and any other future audits within the time stipulations of the NFMC Grant award, and also ensure that all corrective actions identified for current and prior years have been satisfactorily resolved. Furthermore we recommend that AHC's board and management put a higher priority on completing annual audits in a timely fashion and in compliance with NFMC and OMB Circular A-133 guidelines.

In its exit conference response, AHC stated that its audited financial statements for the year ending June 30, 2009 would be provided by March 31, 2010[34].

B. No Federal Audit Clearinghouse Submission

Criteria

OMB Circular A-133 requires that organizations that have undertaken OMB Circular A-133 compliance reports complete applicable sections of a data collection form (DCF) that summarizes the auditor's results, findings and questioned costs, and submit a reporting package to the Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the independent auditors report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Evidence of this submission should be made known to the granting agency on completion and posting of the reporting package.

[34] Internal Audit received AHC's FY 2009 audited financial statements on March 31, 2010.

Condition

As of January 7, 2010[35], AHC had not submitted a reporting package to the FAC for the fiscal years ended 2008 and 2009[36]. AHC had also failed to file a timely reporting package for FY 2007. NeighborWorks America was informed that AHC had made a request for an extension to file its FY 2008 audit from the Department of Housing and Urban Development (HUD), the cognizant federal agency. There was no letter made available to NeighborWorks America noting any HUD response.

Cause

As of December 31, 2009, AHC had not completed its audited financial statements for the audit periods ending for the fiscal years 2008 and 2009 for reasons identified in Section VII A above.

Effect

As a result of not having audited financial statements for the fiscal years ending 2008 and 2009, we have been unable to determine for either of the two years (i) if an audit of AHC was conducted in accordance with OMB Circular A-133, (ii) whether the schedule of findings and questioned costs disclosed no audit findings related to the federal awards provided by NeighborWorks America and (iii) whether the summary of schedule of prior audit findings reported on the status of any audit findings related to the federal awards that NeighborWorks America provided.

Recommendation

AHC should provide NeighborWorks America with written notification from its external auditors that attest to the conduct of an audit in accordance with OMB Circular A – 133 that states (a) there were no audit findings and (b) the status of any prior audit findings. Alternatively, AHC could submit a copy of the reporting package in lieu of compliance with the notification requirement that evidences submission to the Federal Audit Clearinghouse and discloses the items listed above.

C. Additional Recommendations for Consideration

Term Limit for Independent Auditors

It is common industry practice to recommend a five-year term limit for independent auditors as the length of service before starting a bidding process to consider other auditing firms' prices and

35 During our exit conference, Internal Audit was informed by AHC, that their 2008 reporting package was submitted to the FAC. Internal Audit received a copy of the FAC's email confirmation, dated February 4, 2010.

36 AHC's FY 2009 audit will not be considered late by OMB Circular A-133 requirements until March 31, 2010.

services. (b) (4) [redacted] have served as the independent auditors for AHC since July 2003 without re-bidding to date. We recommend that AHC conduct a bidding process to consider other audit firms for its current fiscal year and subsequent five-year term.

AHC has informed Internal Audit that it retained its auditors due to the transition to an internal accounting system, and it is in the process of developing a Request for Proposals to obtain bids from accounting firms for its fiscal year ending June 30, 2010. However, it plans to utilize the same auditors for its years ending June 30, 2008 and 2009.

Hiring an In-House Chief Financial Officer

We noted that the external accounting firm of (b) (4) [redacted] provided a staff person as Interim CFO who has assisted AHC with its accounting services and financial system transition since July 2008. It is our understanding that AHC has used recruiters (b) (4) [redacted] and (b) (4) [redacted] (b) (4) [redacted] to conduct the search of a CFO.

AHC should strongly consider hiring an in-house CFO. A permanent CFO will assist with the retention of institutional knowledge (i.e. AHC programs, grants, etc.) and promote the consistent application of its policies and procedures. We understand that AHC has commenced its search for a CFO and has been interviewing candidates since 2008. It attributes the difficulty in filling this position to salary levels being requested by applicants and their lack of industry- specific experience.

VIII. AHC's PERFORMANCE TO DATE UNDER THE NFMC PROGRAM

A. Programmatic Performance Related to Client File Requirements

Delivery of NFMC programmatic activity is designed to directly support the mission, as defined in the legislation: *to make grants to provide mortgage foreclosure mitigation assistance primarily to states and areas with high rates of defaults and foreclosure primarily in the subprime housing market.*

The tables below show successfully reported NFMC counseling activity through October 31, 2009:

AHC NFMC Activity Billed through 31 Oct 2009
(In Dollars, by Round and Counseling Level)

Billed to NFMC	Counseling Level			
NFMC Round	**L1**	**L2**	**L3**	Grand Total
Round 1	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Round 2	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Grand Total	(b) (4)	(b) (4)	(b) (4)	**15,259,650**

Figure 2 – A breakout of counseling outputs reported (billed) by AHC during Rounds 1 and 2. By February 2010, the total had increased to at least $15,795,850.

Given that AHC had numerous sub-grantee agreements under various State HFAs, this activity can be further broken out by NFMC grantee as follows:

AHC NFMC Activity Billed through 31 Oct 2009
(by Reporting Grantee)

Billed to NFMC	**Counseling Level**			
Reporting Grantee	**L1**	**L2**	**L3**	Grand Total
AHC	(b) (4)	(b) (4)	(b) (4)	(b) (4)
California Housing	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Florida	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Minnesota	(b) (4)	(b) (4)	(b) (4)	(b) (4)
State Of NY	(b) (4)	(b) (4)	(b) (4)	(b) (4)
Grand Total	(b) (4)	(b) (4)	(b) (4)	**15,259,650**

Figure 3 – A breakout of counseling outputs reported (billed) by AHC (directly) and from HFAs that awarded AHC funds as a sub-grantee.

Since more than 75 percent of the $25 million in NFMC funds awarded to AHC were earmarked for the delivery of counseling to homeowners (as opposed to program-related support and operational oversight), it is appropriate to gauge the extent to which AHC actually delivered in accordance with program requirements for these services. These requirements are collectively defined in the Funding Announcements for Rounds 1 and 2 (relevant sections of which appear in the **Appendix G**) and are broken out between those applicable to Level 1 and Level 2, respectively. The requirements were formulated by NeighborWorks America management and drawn from the National Industry Foreclosure Counseling Standards.

Criteria

Level 1 Service:

Level 1 service comprises an assessment of the homeowner's situation and advice to the homeowner on what concrete actions he/she can take to resolve the delinquency, either: (a) acting individually, dealing directly with the servicer/lender (outside the program), or with legal assistance or the help of referrals, or (b) through continued NFMC-funded assistance beyond Level 1 (i.e., Level 2 service). Grantees receive $150 from NFMC for every reported Level 1 unit.

Level 2 Service:

While Level 1 service consists of an assessment and advice, the primary focus of Level 2 service is on substantive actions by the grantee towards resolution of the delinquency. In the typical scenario, a homeowner hopes to retain his/her home and seeks assistance from the grantee in negotiating with the servicer/lender to secure more favorable mortgage terms (or at least a forbearance, to allow the homeowner to catch up with the arrearage). Grantees received $200 from NFMC for each Level 2 unit reported in Round 1; however, because of increased recognition of the amount of grantee work involved in getting the attention and collaboration from servicers/lenders, this supplement was increased by 50 percent, to $300, during Round 2.

Level 3 Service:

Level 3 service simply represents a combination of Level 1 and Level 2 services delivered to the same homeowner within the same reporting period. Therefore, for every reported Level 3 unit, a Grantee received $350 in Round 1 and $450 in Round 2.

Audit Methodology Adopted:

Our methodology adopted audit criteria drawn from the requirements for the Levels 1, 2 and 3, as elaborated upon in **Appendix H**. It should be noted that, for practical considerations, the audit criteria that were applied were generally less restrictive than that defined in the Funding Announcements. For example, for Level 1, the audit testing did not specifically evaluate the contents of an Action Plan as defined in the Funding Announcements; but simply checked to see if a document or sufficient documentation that could be referred to as an "Action Plan" was present in the given customer file. Similarly, for testing of Budget Verification for Level 2, the audit testing sought evidence that supporting documentation was obtained for a minimum of two out of the three information requirements (household debt, expenses and income defined in the Funding Announcements. Also for Level 2, the procedures did not test whether workout packages were submitted to servicers/lenders; tests were simply conducted for evidence of at least some attempted communication (even by telephone) with the servicer/lender, and only in applicable cases. This approach was adopted to make allowance for the program cycle ramp up which was a common challenge experienced by grantees and also expected variances in process that might be undertaken to achieve the requirement expectations. Nonetheless, the measured rates of exception were derived from testing on just a subset of the requirements specified in the Funding Announcements considered to be critical and the Minimum Criteria for Delivery of Service to a Client within the National Industry Standards.

Four factors were chosen for Level 1 testing and five for Level 2. Level 3 was tested for the same factors employed for both Level 1 and Level 2 (except that Homeowner Authorization was considered only once per homeowner to avoid double-counting).

For Level 1 cases, the following four factors were tested:

- Homeowner Authorization
- Intake
- Budget
- Level 1 Action Plan

For Level 2 cases, the following four factors were tested (taking into consideration their applicability to the nature of each case):

- Budget Verification
- Homeowner Authorization
- Level 2 Action Plan
- Contact with Servicer or Lender Close-out Documentation

For Level 3 cases, the factors considered were equivalent to those of BOTH Level 1 and Level 2 described above (excluding duplicate testing for Homeowner Authorization or Action Plan). For a greater understanding, the criteria and the specific procedures are elaborated upon in **Appendix H**.

Finally we adopted the criteria that applicable service requirements should have been satisfied while the cases were active; specifically, before the case files were closed or billed.

Sample:
These criteria were applied to a sub-sample of 350 homeowner files selected from a randomly drawn sample of 1,000 case files from a base population of 65,747 records (valued at $15.3

million) posted to the NFMC Data Collection System by October 31, 2009. The sampling methodology and the resulting sample attributes are described in **Appendix H**. The resulting sample selection itself, in the context of all practical limitations, was reasonably representative of the population of counseling activity through October 31, 2009. Moreover, the sample size was large enough so that the maximum associated margin of error[37] of an estimated rate of exception, against that of the population, would be fairly small (estimated to fall within 5.2 percent).

Collection of Evidence:

AHC management was provided sample lists in each location[38], usually 2-5 days ahead of arrival of the audit team. AHC management collected the necessary files from its hardcopy and electronic sources, reviewed the contents, then printed as necessary and forwarded the files to the audit team for review. The files presented to the audit team were considered to be representative of the status of the individual client files at the time of presentation and consisted of client files that had already been billed. As a result, the audit team expected the files to be complete and any audit observation noted was drawn off of what was in the files presented during the period of our review. Throughout our fieldwork, we confirmed with AHC management our expectations on the requirements for client file documentation.

The audit team examined hardcopy versions of all 350 files reviewed and maintained copies of a significant percentage of these files for record purposes.

Condition

Observations

First, it is important to note that the vast majority of the sample 350 homeowner files included evidence of varying degrees of contact between AHC housing counselors and the homeowners indicating that work on these counseling cases was at least initiated.

Furthermore, it should be noted that AHC undertook three measures in the fall of 2008 to enhance capacity for handling increased production volumes and bolster the quality of its deliverables applicable to intakes beginning in that timeframe.

- The organization implemented a version of [redacted] (b) (4) software to act as a document management system for homeowner documents supporting most case files, with intakes beginning in late 2008 (during the late stages of round 1).

37 Based on a Gaussian (Normal) distribution framework and a 95 percent level of confidence.

38 Refer to **Appendix H** "Audit and Sampling Methodology" for a break-out of sample client files and listing of locations tested.

- AHC also implemented the custom-built [redacted] (b) (4) system to track management information pertinent to the homeowner case files, such as intake data, process timestamps and case logs files.

- Furthermore, the organization established a Negotiator job stream/function to perform quality control over the outputs produced by case counselors and to negotiate directly with the servicers/creditors.

Possibly as a consequence of these measures, there was a measurable drop (16%, in unit terms[39]) in the percentage of identified sample exceptions in Round 2 cases, across the board, as compared to those of Round 1. See **Figure 12**.

Rates of Exceptions

Despite these efforts, however, material exceptions were identified in a significant share (currently estimated at 44 percent[40]) of the 350 sample case files examined, across both Rounds. Material exceptions during our review were those considered to lack clearly stated documentation or the absence of documentation. Although there was indeed a measurable drop in exceptions in Round 2 (versus Round 1), the overall exception rate for Round 2 was still significant, averaging about 39 percent of dollars billed (or 36 percent in terms of units)[41].

A breakout of the exceptions as a share of the entire sample appears below, along with a categorized breakout of the exceptions identified. Major categories (those representing more than 10 percent of exceptions) follow:

- 29 percent of the exceptions identified (25 percent involving Level 2/3 cases and 4 percent related to Level 1) are based on an absence of written action plans[42]. These stem from 25 percent of all Level 2/3 cases and 10 percent of all Level 1 cases in the sample. In a few cases noted, action plans were ultimately prepared and included in the files but after the case was billed or closed. One illustrative example of this exception is included below. Others are reflected in examples 7, 9, 10 and 12 in **Appendix I**.

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39 14 percent if measured in terms of dollars billed.

40 Measured by count, as opposed to billed (dollar) value.

41 One interesting observation was that there was a notable upward spike in the rate of identified exceptions for the sample cases uploaded after the cease and desist date of 30 September 2009; see report section "Exceptions over Time."

42 It should be noted that in a few cases identified, action plans were ultimately prepared and included in the files but only after the case was billed or closed.

No.	Client ID	Round	Level Billed	Exception(s)	Description
1.	(b) (4)	R1	L2	**No L2 Action Plan; No Contact with Servicer.**	**Intake was performed on 10 Sept 2008. The homeowner called AHC seeking financing for home repairs and was informed that NFMC does not deal with such loans. The homeowner withdrew from counseling and the case was closed six calendar days after intake and billed to the NFMC Program.**

Figure 4 – Example of a client file without action plan (amongst other requirements), but was still billed to NFMC.

- 23 percent of all the exceptions result from a lack of evidence of any attempted contact by the counselor(s) with the servicer/lender, in cases that should have required such contact. The vast majority of Level 2 and 3 cases reviewed would have required contact with the servicer. Moreover, this type of exception was identified in 22% of all Level 2 and 3 cases to which the requirement was applicable. In the vast majority of Level 2 and 3 cases, the submission of a workout (loss mitigation package) to the servicer is a key step in the counselor's efforts to help resolve the delinquency, however this cannot occur unless and until there has been at least some degree of contact between the counselor and the servicer/lender. One illustrative example of this exception is included below. Others are reflected in examples 2, 4, 5, 7, 9, 10, 13 and 18 in **Appendix I**.

No.	Client ID	Round	Level Billed	Exception(s)	Description
16.	(b) (4)	R1	L3	**Insufficient Budget Verification; No Contact with Servicer at time of service**	**Neither income nor expense documentation was in case file, despite recent (post-review) materials sent by**

					AHC. Intake was on 05 June 2008. The action plan called for sending a workout to lender but first attempted contact with the servicer occurred on 01 Dec 2009, 16 months after the case was closed and billed.

Figure 5 - Example of a client file without noting contact with servicer during time of service (amongst other requirements), but was still billed to NFMC.

- 15 percent of the exceptions pertain to the lack of close-out letters or related documentation[43], representing 14% of all Level 2/3 files in the sample. One illustrative example of this exception is included below. Another is example 8 in **Appendix I**.

No.	Client ID	Round	Level Billed	Exception(s)	Description
20.	(b) (4)	**R1**	**L2**	**No Close-Out Documentation**	**Intake was on 23 Dec 2008 and Levels 1 and 2 were billed on 22 Feb 2009 and 02 Mar 2009, respectively. The file was closed more than nine months later, on 14 Dec 2009.**

Figure 6 - Example of a client file without close-out letter or related documentation, but was still billed to NFMC.

11 percent of the exceptions are from insufficient verification of the homeowner's budget (representing 10 percent of all sample L2/L3 cases). Since AHC typically requests a credit report on any given homeowner upon intake, in most cases these exceptions involve those in which neither income nor expense documentation has been obtained and filed. One illustrative example of this exception is included below. Others appear under examples 4, 5, 10, 12, 16 and 18 in **Appendix I**.

43 This figure excludes those case files that were clearly still active (i.e., they reflected recent activity) or were started only very recently.

No.	Client ID	Round	Level Billed	Exception(s)	Description
10.	(b) (4)	**R2**	**L2**	**Insufficient Budget Verification; No L2 Action Plan; No Contact with Servicer at time of service.**	**AHC's paperwork got lost between branches and the homeowner claims to have sent AHC the requested forms 4 times over a course of eight months.**

Figure 7 - Example of a client file without sufficient verification of the homeowner's budget (amongst other requirements), but was still billed to NFMC.

- 10 percent of the exceptions stem from budgets that were either not prepared in Level 1 cases or were missing from the files (representing 27% of all sample L1 cases). One illustrative example of this exception is included below. Others appear under examples 3, 5, 6, and 13 in **Appendix I**.

No.	Client ID	Round	Level Billed	Exception(s)	Description
19.	(b) (4)	**R2**	**L1**	**No Budget Developed**	**No budget information whatsoever (either income or expenses) was included in the case file. Intake was 07 April 2009 and Level 1 was billed on 17 June 2009.**

Figure 8 - Example of a client file without a budget developed, but was still billed to NFMC.

As more fully described below, a significant share of case files that had material exceptions included more than one identified exception.

It should be noted that we also observed that AHC was unable to locate three files requested from our sample. These files were located in the Springfield, Massachusetts office. We understand that some AHC branch offices were in transition mode. However, the ability to locate files is important for client service, document retention, the protection of personally identifiable information and an audit trail.

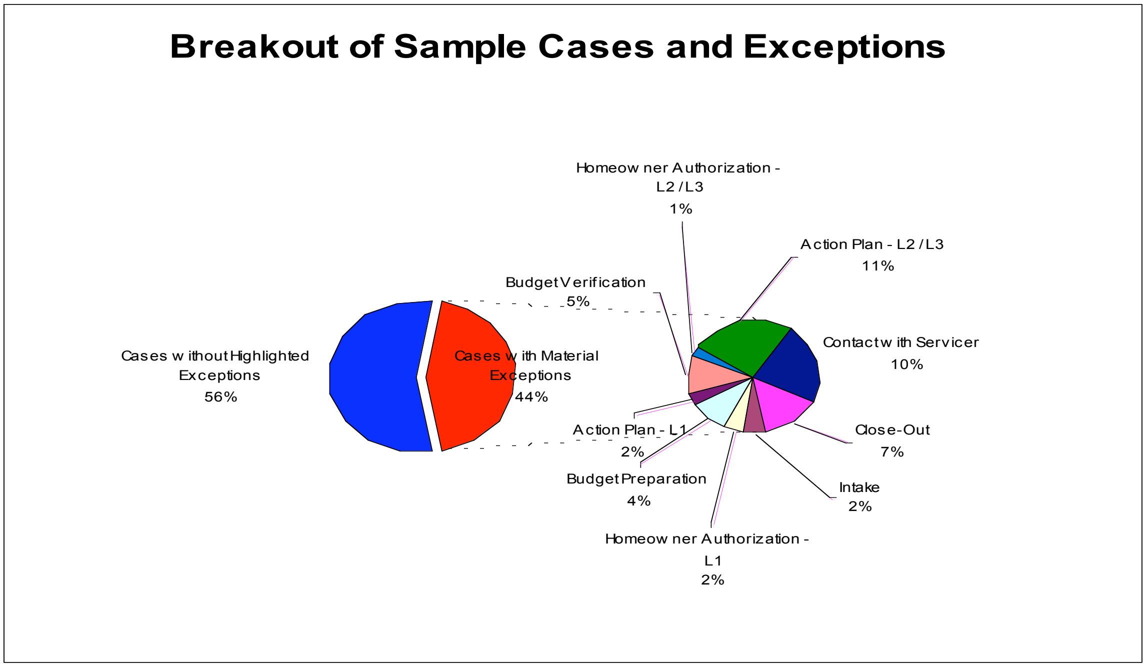

Figure 9 – A breakout of the sample cases and exceptions identified. 44% of sample cases (i.e., 154 of 350) reviewed contained at least one material exception. Within this 44% is an additional breakout of the nature of the underlying exceptions identified (Also see Figure 11 on next page). Percentages displayed above are therefore based on the total sample of 350 case files.

A breakout of these exceptions, by Round and Level, is provided below. As reflected in the first row, 56 percent of the sample case files have zero exceptions identified while the remaining rows represent the distribution of case files with one exception or more.

Number of Sample Case Files and Exceptions (Units by Level)

Count of Cases	Round / Level			(Number of Cases with Given Number of Exceptions)						
	R1			R1 Total	R2			R2 Total	Grand Total	% of Full Sample
Exceptions per Case File	L1	L2	L3		L1	L2	L3			
[redacted] (b) (4)										
Grand Total	[redacted] (b) (4)									100.0%
Exception Rates	[redacted] (b) (4)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Figure 10 – Exception rates identified (by dollar and unit), across program rounds and levels of service. Rows with greater than 0 exceptions highlight case files with material exceptions.

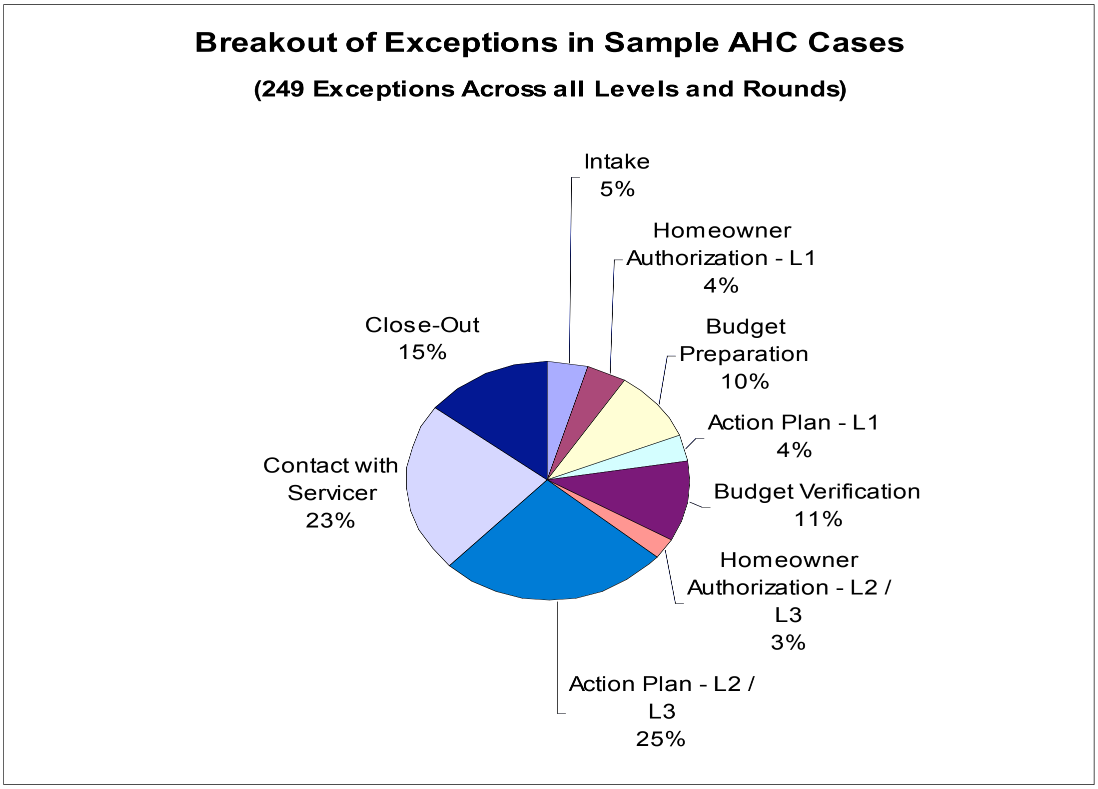

Figure 11 – A breakout of the frequency of the various types of exceptions contributing to the 44% of sample case files with identified material exceptions. These percentages are based on a total of (b) (4) [redacted] exceptions identified.

Exceptions over Time:

An analysis of exception rates of the sample cases by month, from program inception, suggests that there was a clearly identifiable drop in the measured exception rate from mid-2008 to the spring of 2009. This contributed to a corresponding drop of 16 percent (in unit terms[44]) from Round 1 to Round 2.

Despite this measurable drop, however, the overall rate of measured exceptions in Round 2 was still relatively significant, averaging 36 percent in unit terms,[45] across the board.

Finally, there is some indication that there may be a resurgence in the exception rate for cases reported and billed in September and October 2009. (See **Figure 12** below)

44 This was equivalent to 14%, in dollar terms.

45 39% in terms of billed dollars.

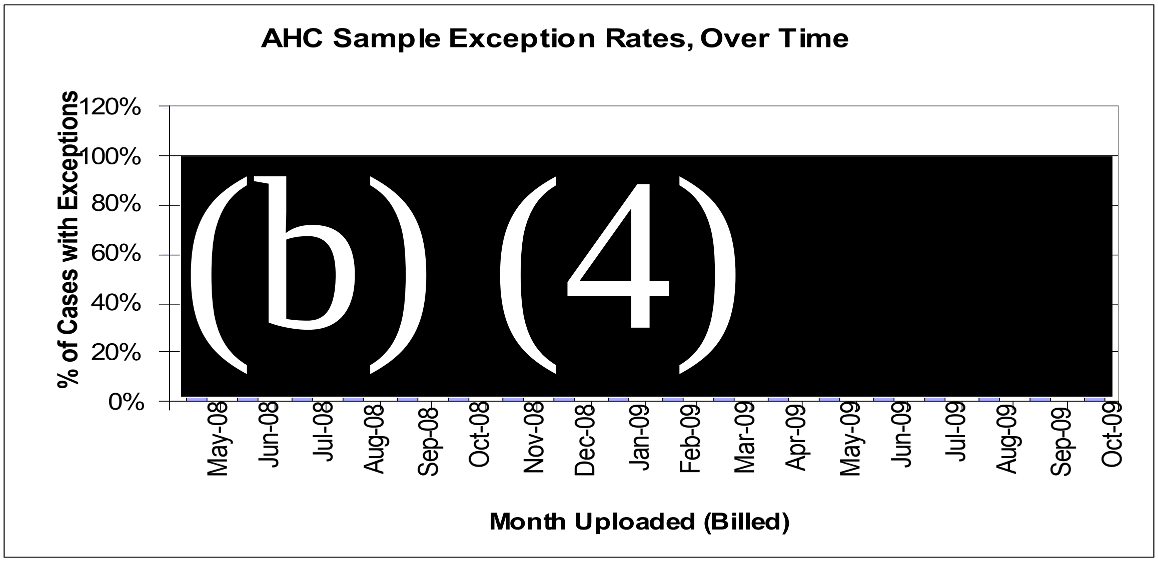

Figure 12 – Exception rates in the sample of AHC case files. The rates are calculated as a percentage of all sample files uploaded in each month.

Exceptions per Case File:

As mentioned above, [redacted] ([redacted] percent) of the case files in the sample examined did not have any identified material exceptions. This is represented by the tallest bar on the left-hand-side of the **Figure 13** chart below.

There was an average 0.7 exceptions per sample case file. However, of those case files with identified exceptions, a significant share [redacted] had had more than one exception, with a maximum of five exceptions per case file.

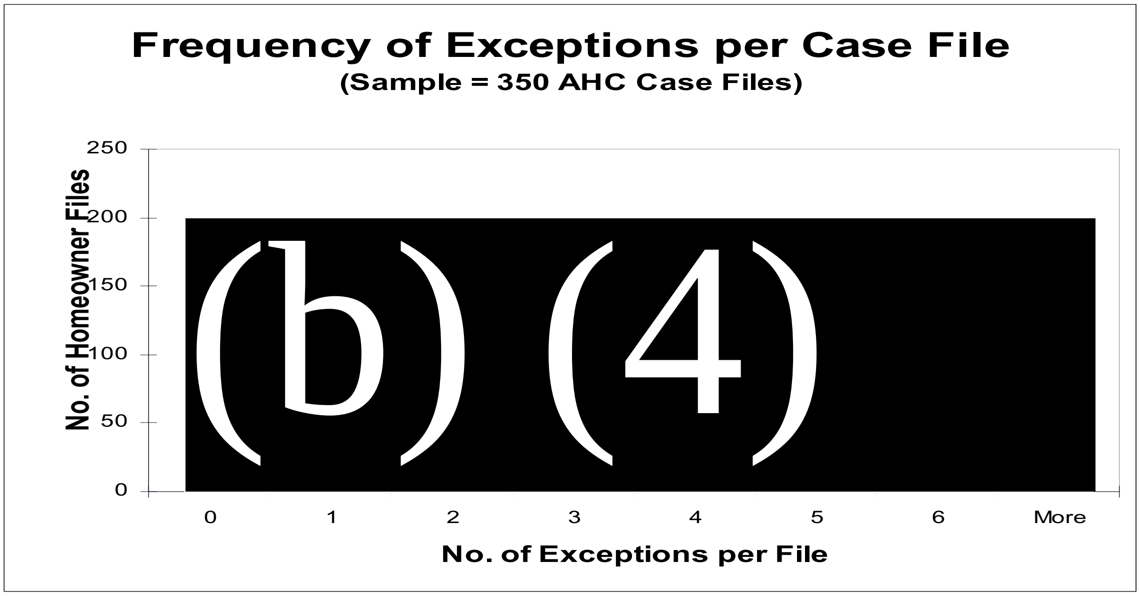

Figure 13 – The bar chart above is for illustration purposes and shows the distribution of exceptions per case file. The blue bar represents those sample case files for which no exceptions were identified ([redacted]% of the [redacted] case files). The red bars illustrate the distribution of cases with identified material exceptions, ranging from 1 to 5 exceptions per files (the arithmetic average was 0.7 exceptions per case file).

Beyond these quantified exceptions, several other observations were noted:

- With budgets tight for these homeowners, it is important for counselors to have reasonably complete and reliable expense information. However, support for expenses was missing for a large percentage of Level 2/3 cases. Although a good share of homeowners provided bank statements and a few provided a representative set of bills, many did not provide any expense support whatsoever.

- Action plans are required to include various elements, especially steps to be taken by the homeowner to address the delinquency. The action plans prepared by AHC dealt primarily with addressing documentation needed from homeowners, rather than the most critical steps to resolve the delinquency itself. A significant percentage of these action plans (for both Levels 1 and 2) were entirely boilerplate, with no customization whatsoever to the specific needs of the homeowner. AHC's management has stated that action plans are automatically generated immediately upon intake. A review of AHC's documentation further suggests that this process occurs prior to any appointment between the homeowners and assigned counselors.

- A fairly large number of documents (e.g., Close-Out letters and Action Plans) in the sample case files were undated and unsigned.

Cause

The breadth and pervasiveness of the exceptions identified indicate that AHC's internal controls, as placed in operation, are not adequate to consistently and reliably support the NFMC deliverables that would ensure complete documentation of client files. This observation can also be extended to AHC's contractor, ACORN, because this organization was contractually required to ensure required homeowner documentation was collected as a part of its NFMC-funded services to AHC.

Internal controls within any organization comprise not only systems, policies and procedures, but also the control environment and the entity's staff. Yet, it appears (as evidenced by the most recent dialogue on the audit findings) that AHC management may have misinterpreted some of the NFMC requirements on client file documentation and completeness.

Effect

It is clear that AHC initiated and reported on a large share of the units that were awarded to the organization. However, based on the above discussion, NFMC evidently had incomplete or inadequate documentation for a significant share (currently estimated at 44%) of the 350 sample homeowner cases reviewed.

Recommendation

We recommend that internal controls over obtaining assurance on completeness of file documentation before submission for upload into the NeighborWorks America system for billing is re-evaluated by AHC. This would include redesign of current counseling processes, tightening up of the (b) (4) system (e.g., validation of data entered and enhanced monitoring of the status of documentation material etc.). The quality control team (referred to as "Negotiators") should take on a more active role in the on-going measurement of conformity against defined requirements and corrective action.

B. <u>Billing to NFMC</u>

(b) (4) time stamps on the level of case completeness frequently either under-represented or over-represented the level of activity that was documented in the case files. Moreover, as AHC management has stated, billing is triggered when counselors indicate that files are complete and, therefore, depends heavily on counselor judgment.

Criteria

The NFMC Funding Announcements define the required documents that must be present in homeowner case files before billing for the various counseling levels; these are described in **Appendix G**.

Condition

AHC's NFMC billing function (referred to as the "*data group*") is based in Washington, D.C. and is executed by two staff, but the process depends on inputs from counselors and Negotiators in AHC's branch offices nationwide. AHC rationalized and modernized its NFMC billing process in late 2008, in conjunction with the implementation of the [redacted] and [redacted] systems.

According to the AHC documentation[46] on the billing process, cases are forwarded by counseling staff to their managers for review as to the completeness of the case information. Under the current process, these cases are then further reviewed by the *data group.* Furthermore, the documentation states that the [redacted] system was designed with a series of validations and edits that would indicate whether all required data items have been submitted and the information logically correct. The system also requires the counselor to confirm that all required documentation has been submitted to the files, that the required counseling occurred and that the case is ready for billing to NeighborWorks America.

However, as referred to above, the audit team found that, for a significant share of cases in the sample reviewed, billing occurred before it was clear that the required deliverables had been completed. Aside from these exceptions identified, there were other cases where the documentation was completed after billing had occurred.

- The exception rates measured and described above indicate that AHC's billing occurs before all requirements are met. Typical examples include Level 1 cases that were billed before budgets were developed and Level 2/3 cases that were billed before any contact with the servicer/lender (in cases when such contact was required).

- As a Level 1 example, in Case [redacted], the case was uploaded to NeighborWorks America for billing on August 3, 2009, whereas the required budget was not developed until two months later (October 16, 2009).

- A Level 2 example is Case [redacted], where billing occurred on August 11, 2009, whereas the contact with the servicer (required for billing in this case) did not occur until August 14, 2009.

- A Level 3 example is Case [redacted], in which billing took place on January 2, 2009, whereas contact with the servicer did not occur until Jan 5, 2009.

In none of these cases could AHC, at the time of billing, have had assurance that it would eventually satisfy all NFMC requirements.

Cause

46 AHC document titled "Uploading and Processing NFMC Data," provided to the audit team in November 2009.

These aspects suggest that AHC's billing process is inherently aggressive. Moreover, there are indications that the system employed as the basis for billing may not be operating as designed or described in the documentation. [redacted] [redacted][47] determined that the consistency and reliability of AHC-provided [redacted] data that it examined was insufficient to even allow for any real benefit of an analysis.

Effect

The effect of this condition has been that a significant percentage of AHC-reported cases were billed prior to satisfying all applicable NFMC requirements for billing.

Recommendation

We recommend that sound quality control methods and techniques be implemented to ensure completeness of case files at the time they are reported and billed. This would include, among other aspects: (a) methods of ensuring that data captured in the [redacted] case management system are reliable and supported by case file documentation; (b) enhanced validation of timestamp and case status data stored in [redacted]; and (c) ensuring that all relevant staff are properly trained as to the documentation requirements for billing of cases.

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47 [redacted] had been engaged by NeighborWorks America's Internal Audit Department to review the financial statements for FY 2008 and also conduct an analysis of the client database submitted for billing. They opted to defer based on the fact that AHC was seriously late in the submission of its FY 2008 audited statements and the poor quality of financial reports submitted.

C. Third Party Reports on AHC

Outcomes as Reported by [redacted]

[redacted] performed an analysis, on behalf of NeighborWorks America, on the outcomes experienced by a sample of homeowners who received counseling through the NFMC program. The analysis was performed on data that extended through a significant share of the program's lifespan to date[48].

In order to perform the analysis, [redacted] first matched loan numbers stored in the Data Collection System (DCS) against outcome-related data made available by [redacted]. [redacted] was able to match slightly over 70,000 DCS records, of which 4,856 were related to AHC and reported under its direct award.

The results of [redacted] analysis, based on its sample of matched records, reflected the following:

Outcomes (AHC vs. All NFMC Grantees)

	All Grantees	AHC	AHC Difference	Relative % Difference
% Foreclosure Started	[redacted]	[redacted]	[redacted]	[redacted]
% Foreclosure Completed				
% Mortgage Paid Off				
% Mortgage Brought Current				
% Mortgage Became Delinquent				
% Mortgage Remained Current				
% Mortgage Remained Delinquent				
Total	**100%**	**100.0%**		

Figure 14 – A comparison of a sample of outcomes of AHC counseling cases against all NFMC grantees, through 09 Feb 2009. (Source: [redacted]).

Based on these results, the rates of foreclosures started and completed for homeowners counseled by AHC were 21 percent and 8 percent, respectively. This falls somewhere between [redacted] percent and [redacted] percent higher than the corresponding rates for grantees as a whole. However, the rate of homeowners that remained delinquent hovers at [redacted] percent, but this is actually [redacted] percent better than that for all grantees as a whole.

48 Specifically, through February 2009.

[redacted] Review

[redacted] was selected by the National Foreclosure Mitigation Counseling (NFMC) Program of NeighborWorks America to assess the quality of foreclosure counseling services delivered by selected organizations receiving Round 1 NFMC funding. Selected organizations included sub-grantee organizations, branch offices of Intermediary and Housing Finance Agencies, and NeighborWorks organizations. Following the training and performance benchmarks set, the [redacted] assessed the extent to which NFMC organizations and their counselors met the recommended core operating and performance benchmarks, which included the review of NFMC client case files to determine if the organizations followed the process workflow outlined in the National Industry Standards for Homeownership Counseling Foreclosure Intervention Specialty. AHC's San Diego branch was one of the selected organizations, and based on the quality assessment review conducted in January 9, 2009, the [redacted] observations were that **"the agency does not meet minimum operational and performance standards"[49].** Specifically, [redacted] noted "counselor needs additional training in the specific area of the foreclosure and more specific to the documentation required for submitting a loss mitigation resolution to a servicer."

[redacted] **Review**

[redacted], a CPA firm based in Kansas, was contracted to provide third-party compliance monitoring of the NFMC program. In its Round 1 compliance monitoring of NFMC Program Grantees and applicable sub-grantees, [redacted] performed an agreed upon procedures review at four AHC locations: Chicago, Illinois (headquarters); Kansas City, Missouri; Phoenix, Arizona; and San Diego, California. Among the procedures performed during its AHC review, [redacted] reviewed six files at each AHC site (consisting of two files at each Level – 1, 2 and 3), sent customer satisfaction surveys to 10 clients at each AHC site, discussed how AHC monitors a contracted agency's compliance with program-related support activities per NFMC requirements, and performed expenditure testing.

During the Kansas City, Missouri review, there was a finding that cited AHC for having five (out of six) files which "**contained no evidence that the clients were allowed access to the organization's privacy policy statement.**" AHC did have an opportunity to respond to this finding and indicated that it provided a privacy policy to the client, which is why the form was not in the client file.

During the San Diego, California review, there were two findings. Finding number 1 cited AHC for having one (out of two) Level 2 files which, **"did not contain documentation or steps taken upon the action plan."** AHC responded to this finding by indicating that the file was still considered an active case which showed servicer interaction, and that appointment notes may not have been clear during the time of their review. AHC provided two formats of the appointment notes from its database, as related to the sampled homeowner, which included dates and time

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49 Source: [redacted] Report. See Appendix J.

stamps. The second finding cited that the San Diego, California office was **"not fully accessible to persons with disabilities."** AHC responded that as of January 15, 2008, its Southern California offices were consolidated. As a result, AHC is no longer operating out of the San Diego location.

[redacted] (b) (4)

As part of a $101,400 NFMC grant to AHC (as a sub-grantee), [redacted] (b) (4) performed evaluations of AHC's performance in the program. [redacted] (b) (4) informed AHC that it was **"concerned about the capacity of your agency and the ability to execute the grant agreement."** The award was cancelled on October 23, 2008, in part, because of "ACORN's (AHC) continued pattern of unresponsiveness to all requests issued to it by [redacted] (b) (4) seeking documentation relating to any of the requirements established by the Grant Agreement and/or the National Foreclosure Mitigation Counseling Program."

IX. TRAINING AND SUPERVISION OF AHC'S HOME COUNSELORS

As mentioned earlier in the scope of this internal audit investigation, NeighborWorks America, as the Grant Administrator, is not responsible for the training or supervision of the home counselors of individual grantee organizations. NeighborWorks America, however, provides training in homeownership education and counseling for HUD-approved housing counseling agencies, NFMC grantees and other nonprofits. NeighborWorks training content is consistent with the requirements of the National Industry Standards for Homeownership Education and Counseling. In January of 2008, NeighborWorks America designed an aggressive NFMC Training Program to support non-profit counseling agencies in strengthening their capacity to assist homeowners at risk of foreclosure. Since 2008, the provision of $15 million in NFMC Program funding to training allowed NeighborWorks to provide scholarships to eligible applicants to attend numerous training events around the country, at its NeighborWorks Training Institutes, foreclosure-based E-Learning courses, and Place-based Training (PBT's) with HUD-approved housing counseling intermediaries and State Housing Finance Agencies, and other non-profit organizations.

Noted below were our observations:

A. Training Hours, Minimum Requirements and Other Training Practices

Criteria

The National Industry Standards for Homeownership Education and Counseling requires that counselors who are new to the field of homeownership education: (1) obtain appropriate orientation and introductory level training during the initial six months of employment, and (2) within 18 months of being hired, obtain a minimum of 30 hours of facilitated instruction, in addition to completing a minimum of 10 hours annually as part of a continuing education requirement. Organizations engaged in home counseling are encouraged to become "adopters" of the standards and do so via an application process. The NFMC program requires adherence to the NIS, though formal "adoption" is not a requirement of the NFMC program.

Condition

AHC, as an intermediary, "endorsed" the National Industry Standards and submitted an application to adopt those standards, but has not been fully recognized as adopting the standards due to a number of outstanding items requested to be submitted. As of the time of submitting our report, these items were still outstanding. AHC made representations in its response to our exit conference that its training approach follows the American Society for Training and Development's recommendation of a minimum of 40 hours of education per year for every employee. However, we were unable to locate any provision for a basic minimum requirement of facilitated training or a minimum requirement for continuing education after reaching the basic requirement in its Training Manual.

We observed that AHC, which is also a HUD-approved housing counseling intermediary, conducted the majority of its counseling training in-house with occasional utilization of NeighborWorks Training Institutes and HUD housing counseling training programs.

As of September 16, 2009 we determined that AHC staff availed themselves of the following external training opportunities since the inception of the NFMC program in 2008.

- NeighborWorks America issued five scholarships to NTIs for AHC staff and 1 certificate of completion for foreclosure-related courses at the NTI.
- NeighborWorks America sponsored place-based trainings (PBT) for all HUD-approved intermediaries in all 3 rounds of NFMC funding. A total of 35 AHC staff participated in PBT events where 15 were funded by the NFMC program, 9 by HUD and 11 by NTI scholarships since 2008.

The large majority of training programs were conducted in-house by AHC and were either on-site or long distance (webinars). Training certificates issued by AHC to staff were for training events such as:

- "Delinquency Training for Housing Counselors"
- "Completing the (b) (4) Database[50] and (b) (4)[51] Software Webinar"
- "Completing the NFMC Legal Referral Program Webinar."

AHC required mandatory training for all AHC counselors for the following courses offered by AHC:

- Basic Foreclosure Counseling Training
- Online training events
- 2008 Mid-Year Loss Mitigation
- Best Practice Trainings

We reviewed logs of sign-in sheets which evidenced staff participation and attendance for the sample of counselors reviewed. In our exit conference, AHC maintained that it monitors the amount of training received by its counselors by determining if they have completed their mandatory training. We were, however, not provided with any documentation to determine how this was tracked per individual, in order to determine the status of training hours received per individual to ultimately determine if the minimum required hours have been met. It is particularly important to centralize and integrate this data in some form of management information system, given that AHC has numerous geographically dispersed offices and locations where these training activities were carried out.

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50 In September 2008, AHC commenced the use of a custom designed web based client database application that collects homeowner information known as the (b) (4) system.

51 This is a web-based mortgage brokerage platform licensed by (b) (4), which collects and stores client documents required by the NFMC program.

We further noted that all currently employed AHC counselors providing NFMC services had signed the National Industry Code of Ethics & Conduct Policies as of September 15, 2009. We did note that AHC was able to track staff hours for online webinars using the "Go to Meeting" conference program. Despite the fact that AHC provided us with a "Staff Chart for Internal AHC Trainings" which listed the various types of training events attended by its staff, we were unable to ascertain the cumulative hours accruable over time to individual counselors, so we requested and were provided by AHC with a listing of each of the training sessions attended by staff and the number of hours attributable to each of the training sessions. It was, however, cumbersome to review the hours for each individual as AHC should have had in place a status report for each individual counselor showing the cumulative hours to date in terms of meeting the requirements.

We also determined that the position for Training Director has been vacant since July 2009 when the previous occupant resigned having been at the job for approximately nine months. There are currently two regional training supervisors who help fulfill those responsibilities until a new Director is hired, and we understand that AHC is in the process of filling that position.

Cause

We are of the opinion that the absence of a central professional specialist (Training Director) who would coordinate and account for all training activities and staff record keeping, in conjunction with the Human Resource Director, is the primary cause for the incomplete recordkeeping and tracking of staff training activities and Training Manual update.

Effect

Although we were able to identify various training events undertaken in-house by AHC and documentation to that effect, we were unable to determine if minimum requirements had been met annually per employee. AHC maintains that in 2008 and 2009 employees who completed their mandatory training necessarily met the annual training requirements. The absence of the basic requirement provision in the AHC Counselor Training Manual indicated that there was no formal monitoring of training requirements, even though there was evidence of staff training activities which were undertaken on an "ad hoc" basis or as needed.

The absence of a Training Director also impacts the responsibility and quality control function of vetting qualifying training opportunities and hours for staff, including the tracking and recordkeeping of cumulative qualifying individual staff training hours. The fact that this function is currently uncoordinated creates an inefficient system for monitoring individual staff training. Even though one way of determining if a particular staff had reached their minimum requirements was to look at the training certificates received by the employee and the corresponding qualifying hours for the event or session, we found no documentation that maintains this information in a central and coordinated form to evidence formal tracking.

Recommendation

We recommend that the AHC Counselor Training Manual be updated to indicate: (1) the number of basic minimum hours required and (2) the number of hours for annual continuous education for housing counselors. Minimally, these standards should conform to the National Industry Standards, to include the requirement for the basic minimum number of hours for facilitated training and a minimum requirement for continuing education after reaching the basic requirement hours of facilitated training. This would provide guidance for and notice of training plans and expectations to both staff and management. In addition to currently maintaining copies of training certificates issued to staff in their respective offices, training records and certificates should also be maintained in a centralized location and in the individual employees' personnel files. A central database should be implemented to track the cumulative qualifying staff hours for both the basic requirement and continuous education annually for each employee. This would provide AHC with a more efficient system of monitoring the status of requirement completion for its foreclosure counselors.

We recommend that AHC expedite the hiring of a Training Director to provide the assurance of a central and identifiable function of responsibility for the coordination and accounting of staff training hours in addition to the overall coordination and monitoring of training activities.

We also recommend that AHC complete the requirements for fully adopting the National Industry Standards for Homeownership Education and Counseling.

During the exit conference, AHC stated that it had recently undertaken steps to improve its record management system by: (1) making copies of training records for each employee and placing them in their respective employee personnel files and (2) creating a database that lists employees and their trainings to facilitate tracking and completion of training requirements.[52]

52 See related observations on BBH Report at **Appendix J.**

X. ADEQUACY OF AHC'S ORGANIZATIONAL OVERSIGHT AND CONTROLS

A. Vendor Contracts

Although audited financial statements were not available for the fiscal years ending June 30, 2008 and 2009 during the period of our review, we considered it important to review high dollar expenditure items. As a result, a sample of contracts exceeding $25,000, which AHC entered into with vendors for services related to the NFMC program were examined. We had little opportunity to conduct adequate testing on the Round 2 client referral fees by the end of our fieldwork. We identified two major types of services provided by vendors as (1) referrals for counseling services and (2) other services.

Referrals for Counseling Services

Background: For reasons of administrative ease, AHC had permission from NeighborWorks America to procure from vendors certain services which involved outreach to homeowners who may be in need of foreclosure mitigation counseling and related services. These vendors provide AHC with names/addresses of homeowners who are owner-occupants of single family (one to four units) properties and are at risk of default and/or foreclosure. The vendors are responsible for contacting these homeowners and providing the related completed referral/intake paperwork to AHC. AHC compensates the vendors using a "price per eligible referred client" fee, based on the level of service that AHC eventually provides to the client, up to a total maximum amount, as follows:

During Round 1, the prices were:
- Level 1 Clients: [redacted] per referral
- Level 2 Clients: [redacted] per referral
- Level 3 Clients[53]: [redacted] per referral

During Round 2, Level 3 clients were referred at the price of [redacted] per referral. There was no mention of referrals for Level 1 or Level 2 clients in the contract.

The following chart provides a listing of all contracts that AHC entered into with vendors for referral services during NFMC Rounds 1 and 2.

[53] Also noted as "Referred Level 2 clients where referral for Level 1 services had already been invoiced".

Vendor	Contract Date	Contract Amount
ACORN	4/15/2008	$ [redacted] (b) (4)
Florida ACORN	4/15/2008	$ [redacted] (b) (4)
Texas ACORN	4/15/2008	$ [redacted] (b) (4)
Michigan ACORN	4/15/2008	$ [redacted] (b) (4)
Minnesota ACORN	7/7/2008	$ [redacted] (b) (4)
ACORN	3/1/2009	$ [redacted] (b) (4)
TOTAL		**$ 6,141,330.00**

Figure 15 – AHC Contracts: Referral for Counseling Services

The following sections discuss the internal control systems, as related to the Procurement and Accounts Payable process, in the management of NFMC program funds.

AHC outsourced to ACORN 44 percent of its NFMC Round 1 award and 17 percent of its Round 2 award (totaling $6.1 million) for client referrals. These contracts also violate the intent of procurement and “conflict of interest” provisions defined in OMB Circular A-110. There is an issue of whether there was sufficient transparency in AHC’s earlier communications with NeighborWorks America management on the dollar amounts and exact number of contracts[54].

In Round 1, AHC used a non-competitive procurement of services from vendors who were referring homeowners for NFMC services and provided justification for this process. AHC chose to contract with ACORN national and four ACORN local state chapters for referral of eligible clients, for awarded amounts totaling $3.5 million. However, ACORN is listed as an affiliated organization in AHC’s 2007 Financial Statements. These state chapters were: Michigan ACORN, Minnesota ACORN, Florida ACORN, and Texas ACORN.

In Round 2, AHC solicited bids for the referral services in Round 2; however, the only bid received was from ACORN. As a result AHC entered into a single contract with ACORN, the sole bidder for those services, for [redacted] (b) (4). In our test work, we noted that there was no evidence that the purchase order associated with this contract was approved by the Executive Director, as required per AHC’s stated policies. In addition, we found no evidence that delegated authority limits exist corporatewide.

B. <u>Procurement</u>

We were provided with a copy of AHC’s Procurement Policies and Procedures, dated January 15, 2009. The document describes the policies and procedures to be followed by AHC for

54 Since funding is provided to the grantees based on their applications, significant changes to their plans should be disclosed to the Grant Administrator. In this case the contracts issued were almost triple (300 percent and 270 percent, respectively) the proposed outreach amounts described in AHC’s application ($1.2 million and $1.0 million for Rounds 1 and 2, respectively. OMB Circular A-110 requires that grantees “report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section.”

procurement of goods and services, and is intended to comply with the procurement standards and requirements as set forth in OMB Circular A-110, 2 CFR Part 215.

AHC has also developed a system for evaluating and documenting the services provided under the vendor contracts for homeowner referrals. The Quality Control Manager and Field Director are primarily responsible for evaluating and documenting the services provided by these vendors. These evaluations focused on three contract issues: (1) volume of homeowner referrals provided by the vendor, (2) completeness or quality of the referral, and (3) the performance on other contract requirements by the vendor, such as meeting specific MSA geographic goals. At the beginning of the referral services, evaluations were performed manually and tracked by management; however, in mid June 2009, the quality control data points were embedded into AHC's (b) (4) system, in order to create a more automated process. With this implementation, weekly quality control reports were generated for each vendor providing homeowner referral services.

The following observations are areas identified in which improvements in internal controls and closely related processes are recommended:

<u>Arms Length Transactions/Conflict of Interest</u>

Criteria

According to OMB Circular A-110, paragraph 43, which addresses open and free competition, "the recipient shall be alert to organizational conflicts of interest."

Condition

1. ACORN Housing Corporation executed vendor contracts with ACORN for client referrals totaling approximately $6.1 million. See **Figure 15** above.

ACORN Housing Corporation has claimed in a recent memo provided to us that it does not have a legal relationship to ACORN due to the following:

- AHC is not a subsidiary or affiliate of ACORN.
- AHC has never owned or controlled ACORN; and ACORN has never owned or controlled AHC.
- AHC has never been a division or branch of ACORN, and AHC has its own independent Board of Directors, management, and employees from ACORN.
- AHC's headquarters are in separate locations from ACORN's headquarters.
- AHC tax returns and annual reports are filed in the states which it operates.

- AHC's finances are separate from ACORN's since AHC has its own bank accounts, financial records, accountants and auditors.[55]
- AHC also claims that it does not have a legal relationship to ACORN and it is not a subsidiary or affiliate of ACORN, as both organizations are separate and independent entities; and
- AHC indicated that the Round 2 contract with ACORN in the amount of (b) (4) [redacted] has been terminated and that it has had no contractual relationship whatsoever with ACORN since that point.

Although AHC and ACORN might be incorporated as separate entities in form and structure, the financial transactions noted below evidence extensive relationships between both organizations that may undermine claims of an "arm's length relationship" between them.

The audited financial statements of AHC for 6/30/2007 and 6/30/2006 list ACORN as an "affiliate" in footnote C "Transactions with Affiliated Organizations." This footnote states, "Acorn Housing Corporation, Inc. is one of a number of nonprofit organizations dedicated to various community service projects primarily associated with low to moderate income families. These nonprofit organizations are controlled by independent boards of directors, but share certain common functions and costs. They are also under certain common controls by individuals who could exercise influence over their day to day decisions."

In its exit conference response to us, AHC argued that AHC was not an affiliate of ACORN in 2009 and 2008[56], when AHC entered into these contracts. Furthermore, AHC management claims that, "the auditor did not properly use the term 'affiliate' when he completed audits for 2006 and 2007." We did not receive any documentation from AHC or its external auditors to substantiate that statement.

In 2006, AHC received gifts and grants in the amount of (b) (4) [redacted] from ACORN Partnerships; incurred costs for office space to ACORN of (b) (4) [redacted]; and (b) (4) [redacted] to Citizens Consulting, Inc. (CCI) for accounting and corporate administrative services.

Furthermore in 2007, AHC had accounts receivable balances due from ACORN in the amount of (b) (4) [redacted] and (b) (4) [redacted]; accounts payable balances due to ACORN in the amounts of (b) (4) [redacted] and (b) (4) [redacted]; and received rental income from ACORN in the amounts of (b) (4) [redacted] and (b) (4) [redacted] for fiscal years 2008 and 2007, respectively. AHC also incurred costs for office

55 ACORN Housing Corporation previously received financial, accounting, legal and human resource services from Citizens Consulting, Inc. (CCI), a firm that provided services to ACORN and many ACORN affiliates. AHC claims to have begun separation from CCI in 2007 by moving legal matters and financial services.

56 AHC's audited statements for the fiscal year 2008 which were received February 1, 2010 refers to ACORN under the heading "Transactions with Associated Organizations" rather than "Transactions with Affiliated Organizations" as used in their 2006 and 2007 financial reports identifying a number of operating transactions undertaken between both organizations.

space with ACORN and incurred costs with Citizens Consulting Inc., which also provided accounting, corporate and administrative services for ACORN.

Internal Audit made similar observations on these organizational relationships in a prior audit report dated August 25, 2008 and enclosed in this report as **Appendix K**.

Furthermore, these executed vendor contracts raise issues in the following four regards:

i. These contractual awards violated the intent of OMB Circular A-110 “Organization conflict of interest” and “Revision of budget and program plans” requirements;

ii. These awards are highly material in that significant shares (44 percent and 17 percent for Rounds 1 and 2, respectively) of total funding from NeighborWorks America were outsourced to ACORN;

iii. The contract awards to ACORN represent major increases[57] against both: the planned amounts for outreach represented in AHC’s applications for NFMC funding and AHC’s representations to NeighborWorks America shortly before issuance of these contracts.

iv. We evidenced significant relationships between ACORN and AHC, which call into question the validity of the arms length transaction. The Round 1 contract was non-competitive (sole source) and the Round 2 contract was awarded after AHC received just one bid.

2. Vendor Contracts Made with ACORN Local State Chapters

   We noted that, upon Round 1 award, AHC entered into five contracts (totaling $3.5 million) with ACORN for client referrals. The names of each of the counterparties in these five contracts were different; four of them were executed with ACORN state chapters (Florida ACORN, Texas ACORN, Michigan ACORN and Minnesota ACORN) and the fifth with the national ACORN office.[58] The issuance of multiple contracts in this manner could give the appearance (or lead an outsider to believe) that contracts have been distributed among separate entities when they are actually one and the same, sharing the same federal tax identification number and receiving payments in the same manner[59].

57 The awards were for (b) (4) and (b) (4) of the outreach amounts proposed in the applications for Rounds 1 and 2, respectively.

58 Due to time constraints, we were unable to review and compare the client referral listings provided by each of the ACORN local state chapters.

59 Payments under the various contracts were mostly routed “c/o CCI” to a Canal Street address in New Orleans.

> ACORN Housing Corporation made representations to NeighborWorks America of its intent to use "ACORN" as a vendor for homeowner referrals. There was no specific mention that separate contracts with local state chapters would be entered into. However, in correspondence examined between AHC and NeighborWorks America, it appears that AHC was under the assumption that this was implied. AHC's letter stated, "Please find a copy of the contract attached to this letter." Attached was only the contract between AHC and Texas ACORN for (b) (4). A copy of AHC's letter is attached in **Appendix L**.

NeighborWorks was not specifically made aware that contracts would be entered into with other additional entities other than Texas ACORN. Per our discussion with NeighborWorks America's management, NeighborWorks was unaware that AHC entered into additional separately identifiable contracts with ACORN and was not aware of the total dollar amounts of these vendor contracts, which would ultimately total to approximately $3.5 million (44% of the NFMC award) in Round 1.

Cause

AHC maintains that the rationale for using the ACORN local state chapters in Michigan, Minnesota, Florida and Texas were due to the fact that they were located in states with very high foreclosure rates. AHC believed those state operations could get up and running quickly and wanted to work closely with these locations in the early months of the grant. We are of the opinion that this same objective could have been achieved by entering into a contractual relationship with just ACORN, and the same arrangements could have been made internally with the local state chapters.

AHC also maintains that because of the short timeline for startup of the Round 1 NFMC grant and the urgency to help homeowners facing the risk of foreclosure, AHC procured services from vendors whom it considered reliable providers of high quality service, whom it considered were ACORN state chapters.

Effect

The awards of these contracts may have violated the intent of OMB Circular A-110 "organization conflict of interest" requirement. Compounding this effect is that (b) (4) and (b) (4) for Rounds 1 and 2, respectively of direct funding to AHC was outsourced under these contracts.

There is a resulting question as to the level of transparency that AHC provided NeighborWorks America management in disclosing the collective size of the contracts issued to ACORN, of the total direct funding to AHC and the major changes in the sizes of the outreach contracts against those originally proposed in AHC's applications. Moreover, the issuance of multiple contracts in this manner could have created some ambiguity as to which organization would ultimately be accountable for performance.

This risk is further compounded by the fact that AHC entered into a non-competitive vendor contract with an organization, ACORN, that was identified as "an affiliated organization" on its 2007/2006 audited financial statements and now referred to as an "associated organization" on the 2008/2007 audited financial statements, raising the issue of the validity of the "organization conflict of interest" requirement of OMB Circular A-110.

Recommendation

It is recommended that AHC enter into no further non-competitive contracts with organizations that are considered to be related parties and that it fully conform to the procurement provisions of OMB Circular A-110.

We also recommend that AHC fully disclose to NeighborWorks America all material vendor contractual relationships related to NFMC by providing a break-down analysis of the contractual amount and vendor name.

<u>Rationale For Contract Cost Not Provided In Procurement Files</u>

Criteria

The procurement provisions of OMB Circular A-110, paragraphs 45-46 stipulates the following for procurement records and files for purchases in excess of $25,000:

- ***Cost and price analysis****. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.*

- ***Procurement records.*** *Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.*

Condition

In our review, we were unable to identify any <u>documented</u> evidence of comparative price analysis in the procurement files. In Round 1, AHC used a non-competitive procurement of services from vendors who were referring homeowners for NFMC services and provided justification for this process. However, there was no documented evidence of price analysis provided. In Round 2, AHC received only one bid, which was from ACORN. AHC used a bidding package which required documentation of the following procurement procedures, as related to NFMC homeowner referral fees:

- Purchase Request
- Solicitation Materials
- Contract Bids or Proposals
- Documentation of Unavailability of Sources for Bid
- Memo Explaining Vendor Selection
- Purchase Order
- Excluded Party Check Results
- Vendor Agreement

Cause

Following our exit conference, AHC management informed us of its pricing rationale/justification as follows:

- Level 1: AHC contracted to pay ACORN [redacted] for each Level 1 case. AHC determined that this price was within the market range for this type of service because of its experience contracting with [redacted], who provided property site visits in 2006 at the price of [redacted]. The [redacted] visits did not require collection of documents and had fewer requirements to be performed. AHC believed that [redacted] was justified for ACORN's higher level of work required for NFMC requirements. Internal Audit reviewed a sample of AHC invoices to [redacted], in order to substantiate this assertion.

- Level 3: AHC concluded that it took three times as much work to perform Level 3 tasks, as it did to perform Level 1 tasks, so total payment of [redacted] was a reasonable payment for the total amount of work performed.

- AHC also informed us that a budget of expenses justifying the amount paid for each Level 1 and Level 3 case were received from each of the local ACORN chapters that it contracted with.

The pricing rationale was however not documented in the procurement file as required by OMB Circular A-110.

Effect

Without the documentation of the rationale used in determining pricing for referral fees being documented in the procurement bidding files, the approval process for pricing justification is less transparent.

Recommendation

While these justifications may satisfy the requirement of a cost/price analysis, it is important that this rationale is documented in the procurement file. Discussions held with management related to the pricing should also be adequately documented for the procurement file.

Lack of Delegation of Authority for Procurement

Criteria

It is best practice for organizations to have a delegation of authority policy which identifies persons who can approve invoices for payment with authority limits on a graduated scale. This limitation can be determined by rank, job responsibility, type of purchase and/or dollar amount. This practice significantly enhances segregation of duties or the need for board approval on significant purchases.

Condition

In our review, we did not locate any evidence in the records provided which would authorize the Procurement Manager to approve a purchase order for ACORN's client referral for counseling services in the amount of [redacted]. AHC's Procurement Policies and Procedures state in section 11 that "the signature of the Executive Director indicating his approval" is required for competitive bids for purchases of $10,000 or more, with no limits imposed. It was observed that the purchase order for [redacted] for ACORN's Round 2 homeowner referrals was not dated or approved by the Executive Director. It was instead authorized by the Procurement Manager. AHC stated at our exit conference that the contract and purchase order was approved by the Executive Director of AHC in a meeting held with the General Counsel and Procurement Manager. However, no record of the meeting or documented approval by the Executive Director was provided to substantiate this claim.

The Vendor Quality Control Manager and the Field Director were primarily responsible for evaluating and documenting the services provided under the vendor contracts for homeowner referral. However, based upon the materials provided during our review, neither of them has any delegated authority limits to approve these transactions. The requests for payment to referral fee vendors were all initiated by the Executive Director with no real formal segregation of duties that left an adequate audit trail.

These payments from our sample had an attached memo which instructed payment by the Executive Director. The checks were as follows:

Check #	Check Date	Vendor	Amount
1025	7/28/2008	ACORN	[redacted]
1026	7/28/2008	Florida ACORN	
1027	7/28/2008	Michigan ACORN	
1028	7/28/2008	Texas ACORN	
Total			**$151,200.00**

Figure 16 – Example of Payments Made Without Proper Delegation of Authority

Cause

AHC did not follow its Procurement Policies and Procedures, particularly as it relates to competitive bids for purchases exceeding $10,000. Furthermore, the procedures do not specify delegation of authority (including dollar thresholds) for management, including the Procurement Manager, Vendor Quality Control Manager, Field Director or Executive Director. We found no evidence of a delegation of authority limit which would have facilitated segregation of duties as part of an internal control procedure within AHC.

Effect

In the absence of any delegation of authority limits set by AHC, it was not apparent how authority, for instance, was delegated to the Procurement Manager, based on records at our disposal. The lack of a delegation of authority, in the absence of board authorizations, does not provide an adequate audit trail that would satisfy audit review procedures. This leads us to conclude that the internal control system pertaining to purchase orders and accounts payables is weak, which raises concern for AHC's proper management of NFMC funds.

Recommendation

We recommend that AHC follow its Procurement Policies and Procedures, as documented. Furthermore, AHC should implement a list of delegation of authority limits for relevant managers involved with vendor selection, evaluation, monitoring and payment authorization. In addition, contracts exceeding a certain dollar amount should require the approval of the Board of Directors. This will improve segregation of duties, provide a more transparent process and will ensure that the Board has put in place adequate control over the authorization and responsibility of significant transactions and services provided by vendors.

C. Accounts Payable

AHC has Accounts Payable Procedures in place. We were provided with a copy of the procedures. The document describes the procedures to be followed by AHC for processing disbursements to vendors. The following observations are areas identified in which improvements over the internal controls and accounts payable process is recommended.

Inaccurate Vendor Names Reflected in General Ledger for Client Referral Fees

Criteria

During our request to review all referral fee contracts, we were provided with contracts for the following organizations: ACORN, Florida ACORN, Texas ACORN, Michigan ACORN and Minnesota ACORN.

Condition

We observed payments to the following vendor names in the financial system/general ledger:

- [redacted] for referral fees in Round 1 to "Texas Acorn Housing Corp"
- [redacted] for referral fees in Round 2 to "ACORN Partnerships"

Based on our review and inquiries with AHC management, there is no contract that AHC has with either Texas Acorn Housing Corp. or ACORN Partnerships. They are inaccurate recordings of the name in the financial system. These payments were made in relation to the contracts with "ACORN" and "Texas ACORN," respectively.

Cause

We were informed by AHC that an error occurred when the names were entered into the General Ledger. Texas ACORN should have been used, instead of Texas ACORN Housing Corp; and ACORN should have been used, instead of ACORN Partnerships. AHC considers this an accident which probably resulted from the use of temporary accounting staff in the second and third quarter of 2008, and was not intended to mislead any users or readers of the financial information.

Effect

There is increased potential that expenses related to any given vendor are misstated. This observation is also supported by prior year OMB Circular A-133, which identified material weaknesses and evidenced the potential for financial misstatements. When a variety of vendor names are used in the financial system, there is the appearance that multiple vendors were used for services. In actuality, this may not be the case and could mislead readers of the organization's financial information. This also impacts the quality of external financial reporting to third parties.

Recommendation

Vendor names in the General Ledger should reflect only those parties identified in vendor contracts.

After discussing this issue with AHC, its management team informed us of measures to be taken in order to prevent this type of error from occurring in the future: (1) monthly reviews of the general ledger and accounting transactions are currently being performed by the staff of an outside firm, [redacted]; and (2) AHC's Grant Accountant is required to match General Ledger data and invoice backup documentation for accuracy prior to grant billing and reporting.

Controls over Manual Checks

Criteria

It is a best practice to issue system-generated checks for the payment of expenditures, in order to consistently ensure accuracy of vendor name, date, proper accounting entry, posting and internal controls, including proper segregation of duties. It also provides a reliable audit trail which should be tracked within the financial system. Manual checks should be the exception and require a justifiable explanation towards an effective internal control system trail.

Condition

There were a number of instances of handwritten checks issued for significant payments, totaling $234,016 (and representing 12% of our sample size). When checks are hand-written, they are more susceptible to accounting errors. The manual checks noted, as it relates to vendor contract referral fees were:

Check #	Check Date	Vendor	Amount
1023	6/18/2008	Texas ACORN	[redacted] (b) (4)
1024	7/15/2008	ACORN	
1025	7/28/2008	ACORN	
1026	7/28/2008	Florida ACORN	
1027	7/28/2008	Michigan ACORN	
1028	7/28/2008	Texas ACORN	
Total			

Figure 17 – Example of Payments Issued Using Manual Checks

Cause

As illustrated above, there was a heavy period of manual checks written in July 2008. According to AHC management, manual checks were used during this time because the Accounting unit was transitioning to a new financial system, [redacted] (b) (4). Typically during periods of system transitions, there may be a slight delay in the system's readiness to print checks; however, there were occasional observations of manual checks issued subsequent to this transition and during 2009 for other vendors. Per our discussion with AHC management, [redacted] (b) (4) was not fully operational in early FY 2009 and some of the AHC accounting staff were in training during that time to learn the new system. At that time, not all staff knew how to use the functions and tasks of the new financial system.

Effect

When checks are handwritten, they are more susceptible to fraud because there are minimal system controls in place. For example, it is less obvious who generated the check, if proper signatures were written, and if approval was made before the check was issued. There is also the increased risk of duplicate payments when checks are written outside the system as they have to be entered into at some point in time to update records.

Recommendation

All checks should be printed via the financial system. Handwritten checks, which are the exception, should only be used in emergency situations or justifiable circumstances, which should be documented. We recommend that AHC develop and implement a policy as to when handwritten checks are acceptable for use and what processes should be followed when this exception is deemed necessary. In addition, a separate log should be maintained for those specific instances where approval is obtained for handwritten checks.

Lack of Dual Signatures on Payments Exceeding $10,000

Criteria

According to AHC's Accounts Payable Procedures, "Payments in excess of $10,000 require dual check signature."

Condition

The checks noted above in **Figure 17** (with the exception of check# 1027 which was less than $10,000) contained one signature, the Comptroller's. There was not a second signature on any of these manual checks, which is not in compliance with AHC's Accounts Payable Procedures.

Cause

During the period of our review, there was not an adequate number of check signers in cases which may require signature during the absence of the Executive Director and/or Comptroller. Accounts Payable Procedures were not properly followed when only one signature existed on checks exceeding $10,000. The Comptroller should have provided the checks requiring a second signature to another check signer who was not involved in the payment request or approval process.

Effect

Ensuring that there are dual signatures illustrates a transparent payment system and conforms to the Accounts Payable Procedures agreed to by the organization. The lack of conformity illustrates weak internal controls and raises the risk of significant payments not being properly approved, in accordance with its own policies and procedures.

Recommendation

AHC should formally designate additional check signers to its accounts to ensure timely payments, while following its Accounts Payable Procedures. These check signers should also have formally approved authority limits, as designated by the Board.

AHC management indicated in its exit conference response that they would be adding check signers to the bank accounts for instances when a second signature is needed, if the Executive Director is not available. They also stated that although the Executive Director's second signature may not have appeared on the checks, all payments for amounts over $10,000 were discussed with and approved by him. However this was not documented in any form. We emphasized that compliance and observance of the Accounts Payable Procedures was the best way to evidence such approvals.

We re-emphasize our recommendation that all significant contractual agreements be approved by the Executive Director subject to delegated authority limits and that delegated authority limits are determined for all employees who have procurement-related responsibilities. Finally, Board approval must be sought as a requirement on material purchases and contractual obligations.

XI. AHC'S RESPONSE TO RECENT EVENTS

A. Background

According to the Harshbarger Report on ACORN Videos, "videographers either separately or together visited eight ACORN or ACORN Housing Corporation offices during July and August 2009, pretending to seek assistance with illegal matters, including prostitution and human trafficking…. The videographers visited ACORN or ACORN Housing offices in Baltimore, Brooklyn, Los Angeles, Miami, Philadelphia, San Bernardino, San Diego and Washington, DC. Based on the Harshbarger investigative report, three of the six videos released occurred in Brooklyn, Los Angeles and Washington, DC, and involved only AHC employees over which ACORN has no control."[60] The tapes, according to AHC management, showed a total of four AHC employees at offices in Brooklyn and Washington, DC. A third videotape of an AHC office in Los Angeles was also released[61], but in its response to our inquiry, during our fieldwork, AHC management provided information on the offices at Brooklyn and Washington, DC only.

B. AHC's Response Subsequent to the Events

As indicated earlier, we were also requested as part of our objective and scope to identify action undertaken by AHC in its response to the release of the videotape incident as disclosed above.

- Four AHC employees involved in the videotapes were immediately terminated on September 11 and 16, 2009, and are no longer employees of AHC.
- As a precautionary measure, AHC reviewed and transferred the client files of the terminated staff from the Brooklyn and Washington, DC offices to other housing counselors.
- The Executive Director ordered the Field Director, and all Regional Directors and Office Managers to cease the scheduling of new client intakes until the enhanced ethics training for all staff was completed and management procedures were in place to adequately monitor employee intake work.
- AHC's Executive Director communicated the organization's expectations of employees, with respect to appropriate conduct, through emails and conference calls.
- AHC's management distributed copies of its ethics policy (see **Appendix M**) to all employees and obtained signatures acknowledging that they read and understood the

60 Source: Harshbarger Report of ACORN Videos. December 7, 2009.

61 Ibid

policy. The ethics policy informed employees that if they were aware of any ethics issues or had any questions, they should contact AHC's General Counsel, who would act as the organization's ethics ombudsman.

- AHC established a Conflicts of Interest Policy. (See **Appendix N**)

- AHC established a Whistleblower Policy. (See **Appendix O**)

- AHC management retained an outside firm, [redacted][62], to conduct a company-wide seminar on ethics on September 29, 2009.

- AHC also indicated that it plans to embark on a communication strategy that would promote its mission and highlight the positive contributions made in the area of foreclosure and mortgage counseling.

- AHC's President and Executive Director communicated with business partners and supporters to inform them of their quick and proactive response to the videotapes' release.

62 [redacted] provides knowledge and resources for nonprofit leaders through workshops, training, assessment tools, an extensive Web site, and a membership program. [redacted] also provides governance consultants who work directly with nonprofit leaders to design specialized solutions to meet an organization's needs.

XII. PRIOR INTERNAL AUDIT REVIEW ON AHC

As part of continuous monitoring, as described in the context of the Internal Audit Plan for the National Foreclosure Mitigation Counseling (NFMC) Program, Internal Audit conducted a review on ACORN Housing Corporation on August 25, 2008.

This report can be reviewed at **Appendix K**.

~~**CONFIDENTIAL – Not for Distribution**~~

Appendix A

Highligted Risks Noted by AHC's External Auditors

- (b) (4) [redacted]

- (b) (4) [redacted]
  (b) (4) [redacted]

- (b) (4) [redacted]
  (b) (4) [redacted]
  (b) (4) [redacted]

- (b) (4) [redacted]

- On December 4, 2009 the Board of Directors adopted new Articles of Incorporation, By-Laws and changed the name to Affordable Housing Centers of America. Restructuring operations are being undertaken and seeking alternative funding sources.

- The ability of AHC to continue is dependent upon its ability to reorganize and find adequate funding.

- (b) (4) [redacted]

  - (b) (4) [redacted]
  - [redacted]
  - [redacted]

(b) (4) [redacted]

- (b) (4) [redacted]

  (b) (4) [redacted] – [redacted]

  - [redacted]
  - [redacted]

- Noncompliance with OMB Circular A133 – AHC did not submit a reporting package to the Audit Clearinghouse within 9 months after the end of the audit period as specified by OMB Circular A-133. (See Section III – Federal Award Findings and Questioned Costs)

- The FY 2008 Audit report is dated January 12, 2010. The FY 2008 report does not address the FY 2007 findings and whether or not corrective action plans have been implemented.

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[1] Internal Audit was unable to verify any corrective actions related to the 2007 internal control deficiencies during the time of fieldwork.

Appendix B

Other NFMC Program Requirements

- Applicants must be in good standing under the laws of the state in which they operate.

- Applicants must be authorized to do business in the states where they propose to provide counseling services.

- State HFA Applicants must have statutory authority to serve the entire state. No more than one HFA per state will receive an award.

- Counseling offices and services must be accessible to persons with disabilities, as well as to homeowners needing translation services (depending on market area).

- To ensure no financial barriers would prohibit clients from receiving foreclosure mitigation counseling services, Applicants and their Sub-grantees and Branches agree not to charge fees (service fees, membership fees or otherwise) to clients in exchange for foreclosure counseling.

- Staff and volunteers who provide foreclosure intervention counseling under NFMC shall have no conflict(s) of interest due to relationships with servicers, real estate agencies, mortgage lenders, and/or other entities (including itself) that may stand to benefit from particular counseling outcomes.

- If intermediaries or State HFA's are including non-HUD approved housing counseling agencies as Sub-grantees under this Funding Announcement, they must certify that these Sub-grantees meet or exceed HUD's housing counseling approval requirements and will monitor to ensure this is true.

- HUD-approved Intermediaries and State HFAs must demonstrate the capacity to serve as an intermediary, including capacity to distribute funds, communicate with Sub-grantees or Branches, collect requisite data, and monitor quality, performance, and outcomes of each Sub-grantee or Branch. Each Intermediary or State HFA is responsible for ensuring their Sub-grantees or Branches meet quality counseling standards and must maintain on file in its offices (a) any multiple applicant disclosure letters received by Sub-grantees or Branches that are applying through multiple intermediaries and/or State HFAs and (b) signed certification forms from page 1 of the Grant Application for each of its Sub-grantees.

- Intermediaries and State HFAs must disburse the majority of the funds received with each draw to their Sub-grantees or Branches within 30 days of receipt. If counselors at Branch offices are employees of the Applicant corporation, a separate account does not need to be established for each Branch, but Grantee should be able to demonstrate in quarterly reports that the funds were allocated and expended at the Branches indicated in their original application. Otherwise, quarterly reports should clearly demonstrate that the Grantee has disbursed funds in accordance with this provision.

- Intermediaries and State HFA's that have received Housing Counseling grants from HUD in the past must be in good standing with HUD.

- Applicants must demonstrate capacity to obtain, track, and report household level data, including (without limitation) name, address, loan number, and the originating financial institution. This is essential to avoid payment for duplicate counseling services provided to the same client and to evaluate program effectiveness. Applicants must also have the capacity to collect, aggregate and report overall program and production data.

- It is preferable that Applicants employ one of three client data management systems: CounselorMax, Home Counselor Online, or Nstep. If Applicants are not using one of these three, they must be using a system that can supply required client level and aggregate data.

- NeighborWorks will not permit discrimination by Grantees against clients on the basis of their gender, race, color, religion, national origin, ancestry, creed, pregnancy, marital or parental status, familial status, sexual orientation, or physical, mental, emotional or learning disability.

- Applicants must have completed an independent audit within six months of the completion of their most recent fiscal year, and must submit their most recent audit with their application, unless NeighborWorks has the most recent audit on file from a previous application. Audits should be less than two years old. Chartered members of the NeigborWorks network already have their audits reviewed and on file with the Organizational Assessment Division and are therefore not required to submit again for this funding opportunity.

Appendix C

NeighborWorks® America
Internal Audit Charter

Mission and Scope of Work

The mission of the internal audit department is to provide independent, objective assurance designed to add value and improve the organization's operations. It helps the corporation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the internal audit department is to determine whether the corporation's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in the prescribed manner to ensure the following:

- Corporate risks are appropriately identified and adequately managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Staff actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Corporate resources are acquired economically, used efficiently, and adequately safeguarded.
- Adequate and effective policies and practices are in place to safeguard corporate assets.
- Established goals and objectives for operations and programs are accomplished.
- Activities take into account the reliability and integrity of information.
- Significant legislative or regulatory issues impacting the corporation are recognized and addressed appropriately.
- Reviews are conducted on the Corporation's guidelines on ethical business conduct and corporate governance.
- Reviews are conducted on information technology, computer and network systems.

Opportunities for improving management control, program objectives, and the corporation's image may be identified during such audit reviews and communicated to the appropriate level of management.

Authority

The Internal Audit Director is authorized to:

- Have unrestricted access to all functions, records, reports, recommendations, physical properties and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where audits are performed, as well as other specialized services from within or outside the organization.

The Internal Audit Director is not authorized to:

- Perform any operational duties for the corporation or its affiliates.
- Initiate or approve accounting transactions external to the internal auditing function.

Accountability

The Internal Audit Director, in the discharge of his/her duties, shall be accountable to management and the Audit Committee to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work as indicated in the annual audit plan.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through its reports.
- Periodically provide information on the status and results of the annual audit plan.
- Coordinate with and provide oversight of other control and monitoring functions (corporate risk management, compliance, information systems security, corporate culture and ethics, external audit).

Independence

To provide for the independence of the Internal Audit function, the Internal Audit Director will report functionally to the Audit Committee and administratively to the Chief Executive Officer

Responsibility

The Internal Audit Director will have the responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the Audit Committee.
- Obtain and maintain adequate staffing resources that would provide the required knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the audit committee and management summarizing results of audit activities.
- Follow up on management's responses to internal audit recommendations and agreed upon internal control improvements including its implementation.
- Follow up on all external auditor reports and recommendations
- Meet with the Audit Committee at least quarterly to discuss status of the internal including significant observations and recommendations.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.

(See Audit Committee Charter)

Management Responsibilities

The Corporation's management will:

- Provide the Internal Audit Director with full support and cooperation in its activities.
- Provide the Internal Audit Director complete access to all records, properties and personnel relative to the performance of his/her activities
- Ensure that the Internal Audit function has an adequate budget and staffing resources;
- Provide a written response to all Internal Audit observations and recommendations

- Promptly inform the Internal Audit Director of significant risk events involving resources, operations, functions and activities of the Corporation.

(See Board of Directors/Officers Scope of Responsibility)

STANDARDS OF AUDIT PRACTICE

The Internal Audit function will be conducted in accordance with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

____
Internal Audit Director

Kenneth D. Wade
____
Chief Executive Officer

____
Audit Committee Chair

Dated March 15, 2007

Appendix D

NeighborWorks®
AMERICA

Internal Audit Plan:

National Foreclosure Mitigation Counseling Program (NFMCP)

April 2008

Risk Assessment and Internal Audit Plan

Table of Contents

I. Executive Summary

This document represents a plan of Internal Audit's risk assessment and selected audit projects related to the National Foreclosure Mitigation Counseling Program (NFMCP). This is a $180 million appropriation approved by Congress and the Presidency designed to support the foreclosure intervention counseling capacity. NeighborWorks® America (NWA) was selected to administer this grant program. Grant award announcements related to the program were made on February 26, 2008. This is an audit review plan (referred to as "the Plan") of selected activities of the NFMCP

This Plan was developed through a collaborative planning approach conducted with NeighborWorks® America officers and senior management. A formal risk assessment process identified, measured and prioritized the potential risks associated with all NFMC activities.

Planning efforts were synchronized with the anticipated NFMCP calendar of milestones, which were recently formulated. The plan development process also determined the necessary resources to be engaged by the Internal Audit function and areas identified to have the greatest risk exposure and/or greatest value-added potential at the time of the risk assessment.

The Plan accomplishes the following objectives:

- Identifies auditable activities, comprised of NFMCP's primary business processes, significant assets, compliance and legislative requirements and major projects/initiatives pertinent to the success of the NFMCP
- Identifies and establishes audit work schedules and priorities based on potential exposures/key risks of the organization within constraints of available man hours;
- Provides the framework for a continuous systematic audit coverage that assures that key systems/units/activities are covered;
- Sets Internal Audit objectives that will provide a basis for measuring our performance; and
- Provides flexibility in continuously monitoring and identifying risks as they occur, thereby enabling NWA to respond in a proactive manner.

The planning process employed a risk based approach, which involved the analyses of data gathered and categorization of risk levels in terms of "high", "moderate" and "low" (See "Risk Assessment Approach").

The Plan places emphasis on audits within the high–moderate risk categories, with risks gauged on their impact on the effectiveness and efficiency of operations, reliability of financial reporting and compliance with legislation requirements.

II. Development Overview

The Plan aims to confirm that key controls, policies and procedures surrounding the NFMCP have been adequately designed and implemented. In developing the plan, the following basic principles were observed:

- The plan recognizes that staff and resources are limited, thus prohibiting 100 percent audit coverage;
- The plan was developed with the awareness that there are inherent risks and limitations associated with any method or system of prioritizing risks;
- The plan takes into account previous or current audit review evaluations of corporate activities identified, which would support the NFMCP

The methodology adopted included the following steps:

1. The conduct of a series of interviews with NFMCP management to identify, understand and assess:
    a. Business processes supporting the NFMCP: A summary of anticipated NFMCP activities and sub-activities was provided to Internal Audit, facilitating a discussion on specific risks. These activities, in aggregate, represent the Auditable Units employed in this plan. We also referenced the legislative requirements of the NFMCP in our assessment of the risk. These requirements are summarized in Appendix A.

    b. Risks related to NFMCP (reputational, program & management, financial, legal): As described further below, NWA management identified global risks related to the NFMC program (see Appendix B - "NFMCP Global Risk Identification"), which facilitated Internal Audit's own assessment of risk. After the identification of business activities was completed, NFMCP management performed a self-assessment on the level of risk related to each of these NFMCP activities.

2. Utilized the currently existing risk model, with a minor modification to one of the weighted factors, to arrive at the subsequent risk scores. See "Risk Assessment Approach" , and

3. Developed an Internal Audit plan that appropriately addresses the exposures based on the risk matrix process and auditable units identified. The plan contains a list of 10 proposed audit projects for NFMCP (see "Proposed Audit Projects").

4. The remaining steps in the Internal Audit methodology involve implementation of the Internal Audit plan, including:

    a. Planning for Specific Projects in the Internal Audit Plan: Initial planning was performed in early April 2008 and resulted in a work program that appears below in "Proposed Audit Projects" and a corresponding timeline in the section titled "Timeline".

    b. Continuous Auditing: Internal Audit also intends to simultaneously establish a continuous auditing program for the NFMCP. This would include periodically examining samples of NFMC program expenditure items (grants, professional services, travel etc.); provision of comments on proposed RFP's for vendor selection; observations of debriefings etc. as well as ad hoc tasks brought to the attention of Internal Audit and deemed significant for audit review. A status report on the results of such reviews would be included in IAD's monthly Tracking Document, which provides a summary of activities for the period and a summary update presented to the Audit Committee at its quarterly meetings. We anticipate that the program expenditure reviews will commence at the beginning of the third quarter, after expense charges will have materially accumulated sufficiently to warrant the audit effort. In addition, and as part of this continuous auditing activity, program generated reports will be subject to monthly analysis.

    c. Audit Project Implementation: This will include performing and documenting audit procedures, and evaluating and reporting Internal Audit results. It should be noted that there are preliminary plans to coordinate a number of on-site visits designed to review and obtain assurance on the functions of:

        i. the quality control and compliance team on grant recipients, and

        ii. the data collection system and the interface with grant recipients.

    This phase of the review will also occur much later in the year and will also be scheduled accordingly as part of the continuous auditing phase referenced above. Reports originating from such internal audit activities will also be presented on a quarterly basis.

    d. Reporting and Tracking: As discussed above, a monthly listing of internal audit activities for this program will be integrated into our current monthly Tracking Document beginning May 2008. Summarized reports originating from the audit activities of the NFMC program will also be presented on a quarterly basis to the Audit Committee.

III. Risk Assessment Approach

Consistent with the FY2008 Audit Plan, six factors were employed in gauging the risk for activities supporting the NFMCP. These factors are weighted in a compensatory model, such that high scores for some factors can be offset by low scores for others. The specific factors and their corresponding weights are as follows:

Item	Factor	Weight Assigned
1.	Interface with External Interests	[redacted]
2.	Materiality ($)	[redacted]
3.	Control Culture	[redacted]
4.	Complexity of Operations	[redacted]
5.	Data Integrity & Adequacy of Systems	[redacted]
6.	Likelihood of Error or Frequency of Activity / Transactions	[redacted]

It should be noted that these are the same factors and weights applied in the FY 2008 Audit Plan, however, the label for the last factor (titled "Time Expired since Last Audit" in the institutional risk assessment), is reinterpreted since almost all of the activities for this program were created only this fiscal year 2008.

Base Scale Employed for Level of Risk:

A total of 33 sub activities for the NFMCP were identified and subjected to each of these factors which were later aggregated into 14 activities. The activities / sub-activities below (i.e., our Auditable Units for NFMCP) are presented at a higher level of aggregation resulting in the 14 activities below (see "Risk Assessment and Ratings " on Page 7).

In accordance with the FY 2008 risk assessment system, each factor was measured for its level of risk on a base risk scale ranging, ranging from 0 to 3, as follows (utilizing an expanded version):

Level of Risk	Base Risk Scale Value
Very Low	0
Low	0.5
Somewhat Low	1
Moderate	1.5
Somewhat High	2
High	2.5
Very High	3

Risk Ratings for NFMCP Activities / Sub activities:

The Inherent Risk Rating for any given activity is therefore the weighted average of the Risk Factors for that activity multiplied by their corresponding Levels of Risk (measured via the Base Scale described above), and indexed by 100. Risk Assessments of "High" represent Risk Rating values of 231 and greater; "Moderate" assessments range between 161 and 230, while "Low" assessments have a maximum rating of 160. Wherever sub activities were collapsed into their parent[1] activity groups, the Risk Rating assigned was the highest value pertaining to any sub activity within that particular parent activity.

It is primarily a reflection of the incremental or additional / marginal risk to NWA for managing the NFMCP. Risk Assessments of "High" represent Risk Rating values of 231 and greater; "Moderate" assessments range between 161 and 230, while "Low" assessments have a maximum rating of 160.

Risk Assessment and Ratings

Item	Function[2]	Activity / Sub activity	Incremental Risk Rating	Risk Assessment
1	Reporting	Production and Quarterly Reporting	(b) (4) [redacted]	[redacted]
2	Reporting	Outsourced Data Collection System	(b) (4) [redacted]	[redacted]
3	Finance	Grant Recapture Provisions	(b) (4) [redacted]	[redacted]
4	Quality Control & Compliance	Compliance with Legislative and Program Requirements	(b) (4) [redacted]	[redacted]
5	Applicant Complaint Management	Applicant Complaint Management	(b) (4) [redacted]	[redacted]
6	Quality Control & Compliance	Quality Control of Counseling Services	(b) (4) [redacted]	[redacted]
7	Application Review & Scoring	Scoring and Funding Recommendations	(b) (4) [redacted]	[redacted]
8	Finance	Grant Disbursements and Related Accounting	(b) (4) [redacted]	[redacted]
9	Finance	Non-grant Expenditures and Miscellaneous Income	(b) (4) [redacted]	[redacted]
10	Staffing and Outsourcing	Management of Outsourced Services	(b) (4) [redacted]	[redacted]
11	Training	Training Awards and Delivery	(b) (4) [redacted]	[redacted]
12	Grantworks	Grant works Application Support for NFMCP	(b) (4) [redacted]	[redacted]
13	Communications and Coordination	Internal and External Communication	(b) (4) [redacted]	[redacted]
14	Staffing and Outsourcing	Internal Staffing for Project Duration	(b) (4) [redacted]	[redacted]

[1] Parent activity is the roll up of similar sub-activities that are related to accomplishing one main activity.
[2] A named function encompasses the entire of scope of sub activities and parent activity.

IV. Audit Objectives and Potential Risks

Following the assignment of risk ratings above, specific anticipated risks applicable to activities with the highest risk ratings were identified and 10 audit projects were selected with their corresponding objectives proposed, as shown below.

<u>NFMCP Audit Objectives and Potential Risks</u>

Activity / Sub activity	**Activity Description**	**Potential Risks**	**Audit Objective**
Reporting			
Production and Quarterly Reporting	Production, analysis and presentation of reports on progress towards NFMC program targets and related financial activities.	(b) (4) [redacted]	(a) Assess whether systems and procedures are in place to ensure that requirements are met; (b) Evaluate the effectiveness of the reporting process; (c) Review the components relevant to billing.
Outsourced Data Collection System (DCS)	(a) Definition, development, implementation and maintenance of an integrated database and analysis application; (b) Operation and control of the Data Collection System (DCS).	(b) (4) [redacted]	(a) Examine the requirements defined for the Data Collection System and provide to vendor; (b) Assess the extent to which system meets requirements and satisfies the needs of the NFMCP; (c) Review the business continuity and security factors surrounding the system.
Compliance with Legislative and Program Requirements	A quality control and assurance process to ensure that the implementation of NFMCP adheres to the Legislation and NFMCP requirements.	(b) (4) [redacted]	(a) Assess the adequacy of the quality control and compliance monitoring system design and implementation; (b) Review compliance with Legislation and Program requirements.

Activity / Sub activity	Activity Description	Potential Risks	Audit Objective
Quality Control, Evaluation & Compliance			
Quality Control of Counseling Services	Methods through which the quality and effectiveness / efficiency of counseling services will be monitored, measured and improved.	[redacted]	(a) Evaluate the delivery of counseling services against the requirements and defined standards; (b) Monitor progress of delivery against targets, by region / awardee; (c) Review quality control system as placed in operation.
Finance			
Grant Recapture Provisions	Application of contractual agreement terms that would allow for the reduction of grants already issued and their reallocation / reissuance in the event that the terms are not met.	[redacted]	Determine that grant recaptures are initiated and effected in a timely manner for applicable cases.
Grant Disbursements and Related Accounting	The process through which NFMCP grant disbursements are effected and the related accounting performed and controlled.	[redacted]	(a) Ensure disbursements are effected in accordance with NWA and NFMC requirements; (b) Assess accounting, in terms of procedures and operating effectiveness.
Non-Grant Expenditures and Miscellaneous Income	The execution and accounting of non-grant expenditures supporting NFMCP and the tracking of miscellaneous related income (e.g., interest).	[redacted]	Ensure that (a) Non-grant expenditures are executed in accordance with budgets and respective contracts; and (b) Accounting for non-grant expenditures and miscellaneous income is appropriate.

Activity / Sub activity	Activity Description	Potential Risks	Audit Objective
Complaint Management			
Complaint Management	Mechanisms, through which complaints from applicants and grant awardees are received, reviewed, addressed and responded.	[redacted]	Ensure that appropriate procedures are in place to receive, process and respond to Complaints.
Design, Application Review & Scoring			
Program Design, Application Scoring and Funding Recommendations	The process through which NFMCP is designed and grant applications are processed, evaluated, approved and funded.	[redacted]	(a) Confirm the appropriateness of the design of the NFMC program and the Application Review and Funding process; (b) Assess the execution of the Application Review and Funding process and the transparency of resulting decisions; (c) Examine adherence to Match / Waiver requirements.
Staffing and Outsourcing			
Management of Outsourced Services	Management of the performance of outsourced tasks by vendors and contractors and of the related costs.	[redacted]	(a) Assess the processes employed to invite tenders and (b) resulting contracting decisions.

V. Proposed Audit Projects

Based on the risk assessment of NFMCP, described above, an audit plan for the program has emerged, with the selection of 10 projects that are commensurate with the perceived level of risk. These projects would be further supplemented with the tasks to be undertaken with the continuous auditing phase.

Key projects and tasks within this audit plan are as follows:

a. **Compliance with Legislative and Program Requirements:** An assessment that ensures NFMCP's adherence to legislation and program requirements;

b. **Quality Control of Counseling Services:** An assessment of the quality control, evaluation and compliance system to ensure that it supports the achievement of service delivery targets;

c. **Outsourced Data Collection System:** A review of the business / functional and technical requirements defined for the Outsourced Data Collection System (DCS), and the implementation and operating effectiveness of that system, including data interfaces, validation functions, business continuity and security aspects;

d. **Production and Quarterly Reporting:** An analysis of the design of the production and quarterly reporting process, including anticipated performance requirements / indicators, identification of performance outliers, and anticipated report layouts, frequencies, etc. Monitoring of the post-implementation effectiveness of the reporting process across organizational entities;

e. **Grant Recapture:** A review of the design and implementation of grant recapture provisions and prospective scaling back of awards, constraints or limitations in their enforcement and the reallocation of grants;

f. **Program Design, Scoring and Funding Recommendations:** An assessment to confirm that the design and implementation of the NFMC program, scoring and funding recommendations process are conceptually sound and in accordance with legislative requirements, and that application reviews were / are effected in a consistent and transparent manner;

g. **Complaint Management:** A review of the policies and procedures in place to handle complaints from applicants in cases of rejection or from grantees following grant recapture and measures to prevent escalation or involvement by other stakeholders;

h. **Staffing and Management of Outsourced Services:** An examination of plans for staffing and outsourced services to support the accomplishment of program objectives and a review of activities undertaken to mobilize these resources;

i. **Grant Disbursement & Related Accounting:** An examination of the execution of grant disbursements and related accounting resulting from the NFMCP; and

j. **Non-Grant Expenditures, Related and Miscellaneous Accounting:** An examination of the execution of non-grant expenditures and related miscellaneous accounting (e.g., income) resulting from the NFMCP.

For most of the audit projects initiated, it is envisioned that work performed during the early stages of the program will place greater emphasis on reviewing the design of systems, policies and procedures developed to support the management of the NFMCP. Conversely, audit tasks conducted in later stages will generally focus increasingly on the operating effectiveness of NFMCP processes.

These tasks are reflected in the Audit Plan Timeline, in the section titled "Timeline".

VI. Proposed Internal Audit Budget

Enclosed with this plan is the submission of a supplemental budget for additional resources. (See proposed budget below). This has been necessitated by the additional resources that would be required to carry out the aforementioned functions given the current internal audit plan for fiscal year 2008 which also has a number of pre-planned ongoing projects.

A total of [redacted] is projected as additional funds for resources. The [redacted] is projected for temporary consultant staffing, consisting of [redacted] consultant audit staff with the other [redacted] to be brought in as a supplement for on-site and off-site projects. Temporary audit staffing will be effected by contracting consultants. There might be instances where we might also need IT expertise for the Data Collection System necessitating additional supplemental resources as an example.

[redacted]

[redacted]

VII. Timeline

NeighborWorks® America

NFMCP Audit Plan (April 2008 through March 2009)

* Timeline is subject to change based on management feedback and perceived risks

NFMC Activity/Sub activity:	
Design, Application Review & Scoring	[redacted] (b) (4)
Program Design, Application, Scoring & Funding Recommend.	
Quality Control, Evaluation & Compliance	
Compliance with Legislative and Program Requirements	
Quality Assurance on Counseling Services	
Reporting	
Outsourced Data Collection System (DCS)	
Production and Quarterly Reporting	
Finance	
Grant Recapture Provisions	
Complaint Management	
Staffing and Outsourcing	
Management of Outsourced Services	
Financial	
Grant Disbursements and Related Accounting	
Non-grant Expenditures and Miscellaneous Income	
Continuous Monitoring	
Pre-Scheduled & Ad hoc Tasks	

VIII. Appendix A - Legislation Requirements

The table below summarizes and categorizes what may be viewed as minimum legislative requirements, as well as their source references.

NFMCP Legislation Requirements

Topic	Legislative Requirement	Ref	Page/Line
Grantees / Awardees	NWA to distribute grants to (a) counseling intermediaries approved by HUD or NWA; (b) State Housing Finance Agencies, where all requirements of L-P1 are met.	L-P1	162/8-11; 163/3-5
Match	Match for NWA-approved intermediaries to be determined by NWA (or waived), based on affordability and economic conditions of the area.	L-P1	162/10-14
Funding Object	(a) Grants to provide mortgage foreclosure mitigation assistance; (b) No funding will be provided directly to homeowners or to discharge mortgage balances or debt reduction.	L-P1; L-P2	162/14-15; 163/20-24
Geographic Allocation	(a) Grants are targeted to states and areas with high rates of defaults and foreclosures, primarily in the sub-prime housing market; (b) Also may be provided to approved intermediaries based on a geographic analysis of where there is prevalence of sub-prime mortgages that are risky and likely to fail, including mortgage trends.	L-P1	162/15-17; 162/20-25 & 163/1-2
Ultimate Purpose	Grants are to help eliminate the default and foreclosure of mortgages of owner-occupied single-family homes at risk of foreclosure.	L-P1	162/18-20
Beneficiaries	Assistance provided to only homeowners of owner-occupied homes with mortgages in default or danger of default.	L-P2	163/11-14
Counseling Content	Assistance consists of activities that are (a) likely to prevent foreclosure and (b) result in long-term affordability of the mortgage or another positive outcome for homeowner. Counseling shall involve (i) a reasonable analysis of borrower's financial situation; (ii) an evaluation of the current value of the property subject to mortgage, (iii) counseling on the assumption of mortgage by another non-federal party or third party, (iv) counseling and advice of all likely restructuring and refinancing strategies or approval of a work-out strategy by all interested parties.	L-P2; L-P3	163/15-20; 164/1-12
Timing of Awards	(a) NWA to award $50 million in grants to States and areas with greatest needs within 60 days of enactment; (b) NWA to award more funds after NWA certifies that grantees or prospective awardees (i) lack funding in areas of greatest need and (ii) have the expertise to use these funds effectively.	L-P4	164/13-15; 164/16-22
Allocation to NWA Charter Members	(a) Up to 15% of total funds to be granted within 60 days to NWA charter members, subject to (b) certification by NWA that selection procedures / activities do not consist of unacceptable conflict of interest of impropriety.	L-P4	164/22-25 and 165/1-4

Demonstrated Experience	Counseling entities shall have (a) demonstrated experience in successfully working with financial institutions and borrowers facing default, delinquency and foreclosure, (b) documented counseling capacity, (c) past successful performance and positive outcomes with documented counseling plans, including (i) post-mortgage foreclosure mitigation counseling, (ii) loan workout agreements and (iii) loan modification agreements	L-P5	165/5-15
Counseling Capacity Development	(a) Up to $5 million may be made available to build mortgage foreclosure and default mitigation counseling capacity of intermediaries through NWA training courses. (b) Private institutions that participate in NWA training shall pay market rates.	L-P6	165/16-24
Administrative Expense Support	Up to 4% of funds may be employed for related administrative expenses.	L-P7	166/1-4
Outreach	A budget for outreach and advertising, as determined by NWA, may be included in the mortgage foreclosure mitigation assistance.	L-P8	166/5-7
Reporting Frequency and Recipients	NWA will report "bi-annually" (semi-annually, i.e., twice per year) to House and Senate Committees on Appropriations, Senate Banking Committee and House Financial Services Committee regarding its efforts to mitigate mortgage default.	L-P9	166/8-12
Reporting Content	Report will (a) identify successful strategies and methods for preserving homeownership and long-term affordability of at-risk mortgages, (b) include recommended efforts that will or likely can assist in the success of the program, (c) also include an analysis of the details and use of any post-mitigation counseling designed to ensure continued long-term affordability of the mortgages.	L-P9	166/12-24

IX. Appendix B - Global NFMCP Risk Identification

NWA management performed a global NFMCP risk identification exercise. These results are summarized as follows:

Risk Assessment	Mitigation Strategy
Reputational Risk	
1. Failure to successfully execute program results in significant decrease in or loss of core appropriation	▫ Input on program design from a broad range of objective and interested parties ▫ High quality staff managing project ▫ Frequent updates to Congress on status of program -- help manage expectations ▫ Frequent updates to the Board and Audit Committee
2. Compromised partnerships & collaborations with existing HFAs & Intermediaries	▫ Transparency throughout program design & process ▫ 3rd party - Data Collection firm ▫ 3rd party - Program Evaluation ▫ 3rd party - CPA firm for quality assurance & compliance ▫ Inclusion of External Application Reviewers ▫ Advisory Committee
3. Political ramifications due to expectation of support for their constituency from wide representation of Congress	▫Transparency throughout program design & process ▫ Advisory Committee ▫ Develop a robust communications plan for the Hill
4. Appropriation misrepresented as THE solution to foreclosure problem -- unrealistic expectations	▫ Proactive timing and effective briefings/presentations on Capitol Hill ▫ Proactive external communication to manage expectations
5. Missed" 60-day" deadline for funding roll-out to areas of greatest need	▫ Effective staging of program elements -- most critical program elements to meeting the deadline are handled first ▫ Designated staff working 6-7days weekly, and around the clock ▫ Strong use of 3rd party vendors and contractors ▫ Regular feedback on Key milestones from Project Director to Executive management
6. Inability to successfully raise other outside funds	▫ Proactive communication to manage expectations ▫ Maintain active fundraising and prospecting activities

7. Failure to meet goals of NWA's corporate scorecard due to any number of factors, including diversion of management attention and resources to the NFMC.	▫ Corporate Scorecard with quarterly board meetings and semi-annual senior management meeting (50 key NWA managers and directors) to maintain focus and attention strategic goals and on all program areas identified in the scorecard ▫ Quarterly Internal Financial Review meetings with Senior management
Program & Management Risk	
8. Capacity of HFAs as overseers of grants and quality control - →Poor quality delivering grants to sub-grantees	▫ Use of application to certify minimum QC thresholds & standards ▫ Established draw schedule - w/ "Built in" right to scale back awards ▫ $$ for Operational oversight
9. Insufficient capital for grantees/sub-grantees to administer program	▫ Upfront program seeding ▫ Established draw schedule with built in buffers
10. Unsuccessful data collection system	▫ Strategic selection of high quality vendors ▫ Vendors with proven experience as required prerequisite
11. Applicant misrepresentation via application, production submissions, & counseling product	▫ 3rd party consultants conduct on-site and off-site verification
12. Poor applicant performance /non-performance	▫ Established draw schedule ▫ 3rd party Data Collection firm and 3rd party QC firm to validate submitted - →Quarterly reports - →Production reports ▫ NWA ability to recapture, reduce awards if not performing and administer subsequent funding pool so successful grantees can administer additional dollars ▫ Execution of a grant agreement providing for a draw schedule, recapture of funds and/or other remedies.
13. Insufficient demand for the program -- cannot spend full appropriation	▫ Multi-year funding ▫ Quarterly reports required and subsequent funding rounds allow NWA to revise program guidelines (in consultation with the Board, Advisory Committee and Congressional Staff)
14. Poor quality of NW training - →Poor delivery due to new hire trainers	▫ Standardized training curriculum ▫ Train the trainer orientation ▫ Post training evaluations for participants ▫ Presence of NW staff at training events
15. Poor evaluation plan/measures and faulty execution	▫ Internal Auditor risk assessment and program evaluation ▫ Timing and involvement of Internal Auditor

Financial Risk	
16. Upfront program seeding($$)	▫ Established draw schedule - w/ "Built in" right to scale back awards ▫ 3rd party - CPA firm for quality assurance & compliance ▫ Fund recapture provision
17. Financially compromised applicants	▫ 3rd party - CPA firm to review, ensure quality assurance & compliance
18. Misapplication of funding	▫ Segregated Source 8 account ▫ Separate financial reporting structure ▫ Internal Auditor program reviews
19. Training registration fee projections fall short due to availability of so many scholarships and focus on foreclosure	▫ Continued marketing for other courses & training tracks
Legal Risk	
20. Misinterpretation of statutory authority	▫ Regular review of program design and implementation by NWA executive management, legal counsel, auditors and the Board. ▫ Follow-up discussions with appropriations staff
21. Disputes/challenges involving grant awards by applicants	▫ Program provision for applicant debriefing process, decision-making transparency, additional resources in the legal budget and regular reports to the Audit Committee on pending litigation.

Appendix E

Detailed Description of Rating Factors for NFMC Applications (Rounds 1 and 2)

Round 1 NFMC Application Summary

Round 1 applicants were required to complete an online application, using NeighborWorks® America's GrantWorks system. No paper applications were accepted. The application utilized short answer sections, charts, and templates to help expedite the application process.

The Round 1 application consisted of five rating factors, which are summarized below:

Factor 1: Capacity of Applicant and Relevant Staff
If applicable, Applicants were required to provide a list of their proposed Sub-grantees or Branches. Applicants were asked to describe their experience operating a foreclosure intervention counseling program, the number of trained foreclosure counselors on staff, and their success in building partnerships. Applicants planning to sub-grant funds to Affiliates or Branches must maintain on file the names and titles of Sub-grantees' foreclosure counselors, their training, certifications (and sources of certification), education, and relevant experience.

Any housing counseling agencies, whether or not they are NeighborWorks® charter members, State HFAs or HUD-Approved Intermediaries that planned to participate in applications with more than one Intermediary or State HFA were required to justify why this was critical in order to meet the demand for foreclosure prevention counseling in their service area(s). They were also required to demonstrate their capacity to track and report activity under multiple applications, including their capacity to report client-level data with unique identifiers to prevent duplication of billing for the same client. Finally, they had to attach a copy of a letter sent to all Intermediary/State HFAs with which they were applying, detailing the breakdown of their housing counseling goals.

Factor 2: Areas of Greatest Need
Applicants identified proposed service areas, including those that were MSAs and rural states that were defined as areas of greatest need. Applicants who wished to provide counseling in places other than areas of greatest need were required to provide evidence of current and projected foreclosure problems in their proposed service area(s), such as foreclosure starts, delinquency data, subprime lending patterns, or other relevant data. They should have also discussed what percentage of their activity would have likely occurred in areas of greatest need.

Factor 3: Scope of Proposed Counseling Services
Applicants were asked to indicate the number of Level One, Level Two, and Level Three counseling sessions they (or their Branches or Sub-grantees) provided during Quarter 1, FFY 07 (Oct 1, 2006 – Dec 31, 2006); Quarter 2, FFY 07 (Jan 1, 2007 – March 31, 2007); Quarter 3, FFY 07 (April 1, 2007 – June 30, 2007); Quarter 4, FFY 07 (July 1, 2007 – Sept. 30, 2007) and Quarter 1, FFY 08 (October 1, 2007 – Dec 31, 2007) (a table

will be supplied). In evaluating this report, NeighborWorks® America reserves the right to review Applicants' HUD Housing Counseling Agency Activity Report (HUD-9902) submissions for the same time periods.

Applicants also identified "New Goals" for the period from March 1, 2008 – December 31, 2008,
for Level One, Level Two, and Level Three counseling delivered both within and outside of areas of greatest need. New goals were defined as realistic goals for the number of additional people that *could reasonably* be counseled, if Applicants received additional funding from the National Foreclosure Mitigation Counseling Program, over and above what would be expected based on historical performance. Applications were scored both on the reasonableness of their goals and the projected impact. Intermediaries and state HFA Applicants were required to identify which Sub-grantees were expected to conduct Level One, Level Two, or Level Three counseling, or some of each, and how they would ensure they had the capacity to track and report the types of counseling provided.

Factor 4: Match
Applicants were required to complete a table that identified both the amount of funds requested from the National Foreclosure Mitigation Counseling Program, as well as the amount of in-kind and cash match they were providing. Applicants serving counties of high poverty or high unemployment were allowed to request a waiver for the match. When requesting waivers, Applicants were required to use data that was no older than 2005.

Factor 5: Measuring Results and Program Evaluation
Applicants were asked to specify the client management system to be used by each of its Subgrantees: CounselorMax , Home Counselor Online, or Nstep. If they did not use one of these three, they identified the system they do use and certified that it could perform required data tracking and reporting, both on the individual client and on an aggregate basis. To the maximum extent possible, NeighborWorks® America used the same program outcomes housing counseling agencies already tracked and reported for the HUD Housing Counseling Agency Activity Report (HUD 9902) form for quarterly reporting. Intermediaries and State HFAs certified that they had the ability to aggregate data and submit reports on a quarterly basis. Applicants were asked to supply a workplan for the period March 1, 2008 to December 31, 2008 that identified key action steps, timeline, and counseling production goals. Applicants were also asked to certify their willingness to participate in ongoing quality control and program evaluation, extending until June 30, 2010.

<u>Round 2 NFMC Application Summary</u>

Round 2 applicants were required to complete an online application, using NeighborWorks® America's GrantWorks system. No paper applications were accepted. The application utilized short answer sections, charts, and templates to help expedite the application process.

The Round 2 application consisted of six rating factors, which are summarized below:

Factor 1: Grant Performance
If applicant received funds in NFMC Round 1, they were asked questions about their performance under that grant and progress against goals. If applicant did not submit reports on time, if their goals were not within the allowable variance, or if they intend to request an extension because they were unable to complete their Round 1 goals before December 31, 2008, they were asked additional questions regarding challenges they faced and justified their need for additional funds. If applicant scored very low on this category (for example, they have expended very little of NFMC Round 1 funding), they may have been deemed ineligible for NFMC Round 2.

Factor 2: Capacity of Applicant and Relevant Staff
If applicable, Applicants were required to provide a list of their proposed Sub-grantees or Branches. Applicants were asked to describe their experience operating a foreclosure intervention counseling program, the number of trained foreclosure counselors on staff, and their success in building partnerships. Applicants planning to sub-grant funds to Affiliates or Branches must maintain on file the names and titles of Sub-grantees' foreclosure counselors, their training, certifications (and sources of certification), education, and relevant experience.

Any housing counseling agencies, whether or not they are NeighborWorks® charter members, State HFAs or HUD-Approved Intermediaries that planned to participate in applications with more than one Intermediary or State HFA were required to justify why this was critical in order to meet the demand for foreclosure prevention counseling in their service area(s). They were also required to demonstrate their capacity to track and report activity under multiple applications, including their capacity to report client-level data with unique identifiers to prevent duplication of billing for the same client. Finally, they had to attach a copy of a letter sent to all Intermediary/State HFAs with which they were applying, detailing the breakdown of their housing counseling goals.

Factor 3: Areas of Greatest Need
Applicants identified proposed service areas, including any that are MSAs and rural states that are defined as areas of greatest need (see Exhibit 4 of the Round 2 Funding Announcement).

Factor 4: Scope of Proposed Counseling Services
Applicants were asked to indicate the number of Level One, Level Two, and Level Three counseling sessions they (or their Branches or Sub-grantees) planned to provide during each of the previous 4 quarters (Quarter 3, CY 07 (July 1, 2007 – Sept 30, 2007); Quarter 4, CY 07 (Oct 1, 2007 – Dec 31, 2007); Quarter 1, CY 08 (Jan 1, 2008 – March 31, 2008); Quarter 2, CY 08 (April 1, 2008 – June 30, 2008) . In evaluating this report, NeighborWorks® America reserved the right to review Applicants' HUD Housing Counseling Agency Activity Report (HUD-9902) submissions for the same time periods.

Applicants also were required to identify "New Goals" for the period from January 1, 2009 – December 31, 2009, for Level One, Level Two, and Level Three counseling delivered both within and outside of areas of greatest need. New goals were defined as realistic goals for the number of additional people that *could reasonably* be counseled, if Applicants received additional funding from the National Foreclosure Mitigation Counseling Program, over and above what would be expected based on historical performance.

Factor 5: Targeted Outreach
Applicants were asked to describe any outreach efforts designed and implemented to reach minority and low-income homeowners and neighborhoods, and to indicate a percentage of their total goal they would commit to serving should NFMC Round 2 funds be awarded. Applicants were asked to review a list of heavily-impacted zip codes and heavily-underserved MSAs and indicate whether it could commit to providing services in these areas. Additionally, applicants were asked whether they conduct targeted outreach to any special populations, such as the elderly, disabled, or veterans/active duty military.

Factor 6: Match
Applicants were required to complete a table that identified both the amount of funds requested from the
National Foreclosure Mitigation Counseling Program, as well as the amount of in-kind and cash match they were providing. Applicants serving counties of high poverty or high unemployment were allowed to request a waiver for the match. When requesting waivers, Applicants were required to use data that was no older than 2005.

Round 2 Legal Assistance Application Summary

Round 2 Legal Assistance applicants were required to complete an online application, using NeighborWorks® America's GrantWorks system. No paper applications were accepted. The application utilized short answer sections, charts, and templates to help expedite the application process.

The Round 2 Legal Assistance application consisted of four rating factors, which are summarized below:

Factor 1: Eligibility Certifications
Applicants were required to certify that they, their Sub-grantees, Branches, Affiliates, and all contracting legal entities or legal staff receiving NFMC Program legal assistance funding – whether they work directly with the Grantee or a Sub-grantee, Branch or Affiliate – meet or exceed each of the following minimum criteria listed in the application.

Factor 2: Service Delivery Model
Applicants were required to indicate how they would ensure that: no less than 85 percent of the awarded legal assistance funds must be allocated to attorneys or legal staff to work directly with homeowners or foreclosure counselors; oversee their legal staff or contracting legal entity; up to 15 percent of the awarded legal assistance funds can be utilized for Secondary Legal Assistance; start receiving referrals and using funds within

90 days of receipt; and that no funds made available under the NFMC Program be used to provide, obtain, or arrange on behalf of a homeowner, legal representation involving or for the purposes of civil litigation.

Factor 3: Proposed Geographic Service Areas
Applicants were required to commit to spend no less than 60% of their legal assistance in MSA's, as indicated on their applications.

Factor 4: Match
Applicants were required to itemize the projected match for 2009 for legal assistance funds. The match funds could be provided by the contracted legal entity or the applicant itself.

A Round 3 application description was excluded here because no funding was provided to AHC for that grant cycle period.

Appendix F

(b) (4)

[redacted]

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

President and Board of Directors
Acorn Housing Corporation, Inc. and Subsidiaries
New Orleans, Louisiana

NOTE: This Audit Report was provided to NeighborWorks America in its oversight role as Administrator of the National Foreclosure Mitigation Counseling Program, however the Audit Report indicates that the Report is intended solely for the information and use of the board of trustees, others within the organization, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. Therefore the Report is being redacted pursuant to the provisions of the Freedom of Information Act.

[redacted]

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

(b)(4)

[redacted]

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

[redacted]

August 1, 2008

[redacted]

ACORN HOUSING CORPORATION, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

(b) (4)

[redacted]

(b) (4)

[redacted]

(b) (4)

(b) (4)

[redacted]

(b)(4)

[redacted]

(b) (4)

[redacted]

(b) (4) [redacted]

ACORN HOUSING CORPORATION, INC. AND SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

(b) (4)

[redacted]

Acorn Housing Corporation, Inc.
and Subsidiaries

209 W. Jackson Blvd., Suite 301
Chicago, IL 60606

October 16, 2008

CORRECTIVE ACTION PLAN

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Acorn Housing Corporation, Inc. and Subsidiaries respectfully submit the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

[redacted]

Audit period: Year ended June 30, 2007

The findings from the June 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. **FINDINGS - FINANCIAL STATEMENT AUDIT**

2007-1 Refundable Advances

Condition: Amounts earned during the year were not recorded.

Recommendation: Procedures should be implemented requiring the analysis of all refundable advances, especially when there are sales of properties where grant funds are used as a part of the buyer's payment.

Action Taken: Procedures have been implemented to ensure that the refundable advances are recorded in revenue when earned. These procedures are designed so that amounts are recorded in the appropriate period and aid in the proper matching of revenues and costs.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

B. **FINDINGS - FINANCIAL STATEMENT AUDIT** (continued)

2007-2 Accounts Receivable, Gift and Grant Receivable and Accounts Payable - Cutoff

Condition: The cutoff of receipts and payables at year-end was not properly evaluated and recorded.

Recommendation: Procedures should be implemented requiring the consistent use of cutoff procedures for sales, purchases, and expenses. These procedures will ensure that amounts are recorded in the appropriate period and aid in the proper matching of revenues and costs.

Action Taken: Procedures have been implemented to ensure that there is consistent cutoff procedures for sales, purchases, and expenses. These procedures are designed so that amounts are recorded in the appropriate period and aid in the proper matching of revenues and costs.

2007-3 Investments in Land, Buildings, and Improvements and related debt

Condition: Asset additions recorded as expenses or not recorded.

Recommendation: Procedures should be implemented requiring the analysis of additions related to investments in land, buildings and improvements and the associated debt.

Action Taken: Procedures have been implemented to include an analysis of additions related to investments in land, buildings and improvements and the associated debt. These procedures include but are not limited to reconciling debt to the related bank statements and reconciling construction budgets and vendor invoices.

C. **FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2007-4 Timely submission of Reporting Package

Condition: The Corporation did not submit a reporting package to the Audit Clearing-house within nine months after the end of the audit period as specified in OMB Circular A-133.

Recommendation: We recommend that the Corporation submit the required reporting package as soon as possible. Also, the Corporation should plan to begin and complete their future annual audit sooner than they have done in the past.

Action Taken: The audit is planned to begin earlier and finish more timely. Additional personnel will be committed to assist in this matter.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

If the Department of Housing and Urban Development has questions regarding this plan, please call [redacted], Comptroller at [redacted].

Yours truly,

[redacted]

[redacted], Comptroller

Appendix G

NFMC Funding Announcement Criteria

1. Level 1 and Level 3 Files:

	Factor	Funding Announcement Requirements	Audit Acceptance Criteria	Exception Rate Estimated
a.	Homeowner Authorization	Collect a signed authorization from homeowner or have other legally-permissible client authorization on record that will allow organization to: (i) submit client-level info to DCS, (ii) open files to be reviewed for program monitoring and compliance purposes, and (iii) pull credit record for program monitoring and compliance purposes. Organization must also allow client access to its privacy policy statement.	The Audit only tested for the existence of either: (i) Homeowner-Signed Authorization Form in file, or (ii) Homeowner's Initials submitted to HELP system as means of approval. *(Instances of lack of Privacy Policy or Disclosure statements were recorded but did not impede audit acceptance.)*	
b.	Intake Data (overall assessment)	Must conduct an intake including: (i) Client name and address, (ii) Basic demographic information (iii) Lender and loan information, (iv) Reason for delinquency	The audit tested for the existence of either: (i) Intake Form filled out by Homeowner present in file, or (ii) Intake information captured in HELP system. *(The lack of selected pieces of information, including current value of home or even demographic information was noted but did not result in exceptions.)*	
c.	Budget	Organization must develop a budget for the client, based on client's oral representation of his / her expenses, debts and available sources of income.	The audit tested for evidence of the existence of a budget that was compiled by the counselor, even in summary form. The budget should include at least (i) income,	

			(ii) expenses and (iii) net income. *(For audit testing purposes, the budget could even have consisted of just three figures on the intake form, however both income and expenses were required. In the event the data was reflected in HELP, then this was accepted (however, monthly expense information must have consisted of more than just the mortgage payment). The budget should have been prepared while the case was still active and prior to closure.)*	
d.	Level 1 Action Plan	Organization must develop an Action Plan for follow-up activities to be taken by client and review the Action Plan with the client. National Industry Foreclosure Standards provide guidance on the contents of the Action Plan as follows: (i) Reason why homeowner is (or in danger of becoming) delinquent, (ii) Assessment of property's condition and calculation of equity, (iii) Financial assessment leading to recommendations for resolution or discussions on foreclosure, sale, deed-in-lieu, short sale and possible tax consequences and / or deficiency judgment issues, (iv) Steps to be taken by homeowner towards delinquency resolution and steps to be taken by counselor, (v) Contact info for other	The audit tested for existence of a written "Action Plan" sheet for Level 1. *(For Level 1, even a boilerplate plan without any customization or even any reference to the homeowner's name was accepted for audit acceptance purposes. Moreover, audit acceptance did not require that any of the five elements referred to in the National Industry Standards be present. Nor did it require any information specific to the homeowner, e.g., his circumstances of even his / her name. It simply included checking whether a document titled "Level 1 Action Plan" was included in the file or, alternatively, in the header an emailsent to the homeowner that recorded in the Log files. Furthermore, the audit did not test whether the Action Plan were delivered within 24 hours of counseling session).*	

		community referrals to assist client. Action Plan must be issued within 24 hours of counseling session.		

2. Level 2 and Level 3 Files:

	Factor	**Funding Announcement**	**Audit Acceptance Criteria**	**Exception Rate Estimated**
a.	**Budget Verification**	Counselor reviews documented evidence provided by the client to establish: (i) True debt obligations (credit report), (ii) Monthly expenses and spending patterns (monthly bills and bank statements), and (iii) Realistic opportunities for income (tax returns and pay stubs).	The audit tested for verification of supporting documentation for at least **two of the following three** categories: debt obligations, income and expenses. This information must have been produced by independent / third parties. (i) Verification of Debt Obligations was covered by the existence of either a credit report or a mortgage loan statement. (ii) Verification of Income was covered by the existence of <u>either</u> two paystubs (preferably consecutive), <u>or</u> the cover pages of an Income Tax Return of the year prior to the counseling, or a letter from a 3rd party (e.g., employer or Social Security Administration) documenting the homeowner's income.	

			(iii) Verification of Expenses was covered by the existence of either 2 consecutive personal (not business) bank statements or, alternatively, a collection of bill statements. It was not covered by a personal P&L statement. *(Although producing a reasonable budget naturally requires reliable data for all three categories, only two were required under this criterion. Since credit reports appear to be requested almost automatically upon intake, the grantee's remaining burden for meeting this criterion becomes acquiring documentation for either income or expenses.)*	
b.	**Homeowner Authorization**	(Same as Level 1, a, above)	(Same as Level 1, a, above, if not already checked.	
	Steps to Obtain a Solution:			
c.	Level 2 Action Plan	Documentation of steps to be taken to resolve the delinquency, using counseling notes that also reflect the date of counseling.	The audit tested for existence of document "Level 2 - Action plan" in the folder or, alternatively, copies of the document contents in the file's case log. *(Neither customization of the Plan to the homeowner's circumstances nor even reference to the homeowner's name were required for acceptance. Boiler plate action plans were accepted);*	

d.	Hardship Letter	Hardship letter that describes for the servicer: (i) the situation of the client, (ii) the reason for the delinquency, (iii) factors that should be considered when developing a workout plan and (iv) an estimate of the housing cost the client can afford to pay.	The existence of hardship letters were noted but not factored into audit acceptance estimates.	
e.	Contact with Servicer / Lender	Documented attempt to contact the servicer or lender and, if a workout is possible, fill out and submit forms required by servicer to move forward with a workout plan, loan modification or other program.	The audit tested for documented evidence of contact (or at least attempted contact) with the servicer / lender, as a component of Steps to Obtain a Solution and prior to the case being closed or becoming inactive. This criteria was not applied for those cases where documentation indicated that homeowners from the outset sought a short sale, local refinance / rescue funds or to be alternatively referred to legal counsel. Information on contact with servicers was sought both in the body of the file (e.g., faxes or copies of emails) and in the case log, which often included copies of the communication history. *(Acceptance did not require that a workout plan be submitted to the servicer / lender. It simply looked for any evidence that the homeowner had attempted some form of*	

			communication with the servicer / lender prior to the case being closed or becoming effectively inactive. This communication could have been preliminary in the process and may have even been via telephone.)	
f.	Complete and Submit Application for Local Resource Options	Submitted application for local resource options, in situations where clients seek refinance programs and rescue funds	This criterion was not tested.	
g.	Assist when Clients Elects to Pursue Sale Options	Assistance provided in situations where clients pursue sale options.	This criterion was not tested.	
h.	Close-Out Documentation	Close-out is completed, including (i) Documentation of Steps to Obtain a Solution, (ii) Documentation demonstrating solution, and (iii) Reason for close-out.	Existence of evidence as to whether and why a homeowner file was closed. For audit testing purposes, either (i) a close-out letter, record of a corresponding email, or (ii) some indication in the Logs reflecting that the case had been closed were sought. *(Testing was not applied to cases that were opened recently, i.e., within the past few months).*	

3. **Level 3 Files:** The requirements for Level 3 files are equivalent to those of BOTH Level 1 and Level 2 described above.

Appendix H

Office of Internal Audit
AHC Sampling Methodology

1. Population:

a. The first step in the methodology was to define the population of AHC units billed by 31 October 2009, both directly by AHC and indirectly (as a sub-grantee) through HFAs. This figure was estimated by analyzing all:

   i. Homeowner records uploaded directly by AHC to the NFMC Data Collection System (DCS), and

   ii. DCS Records related to AHC that were uploaded by partner Housing Finance Agencies (HFAs); these were identified based on branch IDs supplied by the organizations.

b. Although it is quite possible that some additional records were missing because the complete list of branch IDs may not yet have been received, the population was defined as follows:

AHC Assessed Population At 31 October 2009		
Level	Records	Billed Value ($)
1	(b) (4) [redacted]	
2		
3		
Totals	(b) (4) [redacted]	**15,259,650**

Figure 1

c. The billed value may also be broken out by Round, as follows:

AHC NFMC Activity Billed through 31 Oct 2009
(by Reporting Grantee)

Billed to NFMC	**Counseling Level**			
Reporting Grantee	**L1**	**L2**	**L3**	Grand Total
AHC	[redacted]			
California Housing				
Florida				
Minnesota				
State Of NY				
Grand Total	[redacted]	[redacted]	[redacted]	**15,259,650**

Figure 2

d. A breakdown of the population by branch appears further below.

2. Sampling Adjustments to Population:

a. The sampling design sought to select any given homeowner's case files only once and for the highest level of counseling received. To achieve this, all Level 1 records for customers (as represented by Client IDs) that also received Level 2 service (i.e., a total of [redacted] of the [redacted] Level 1 records) were filtered out. This resulted in [redacted] Level 1 records from which to sample (an adjustment was later performed to compensate for this in billed value calculations).

b. All records in the collection were assigned random sequence numbers and sorted in that order to remove any systematic patterns in their presentation.

3. Probability Distribution:

a. The probability of selecting any given Level 2 or 3 record for the sample was proportional to the corresponding billed value. More precisely, the probability of selection was equal to its billed value divided by the total billed value of the population.

b. The probability of selecting any given Level 1 record was also proportional to its billed value. However, an adjustment factor was included to compensate for the [redacted] records filtered out, above, to ensure that the combined billed value would be representative of the Level 1 category (this factor was [redacted] / [redacted].

4. First Stage - Random Sampling:

a. [redacted] random numbers were drawn and matched against the sequence numbers assigned to population records in 2b, above, to select the sample records.

b. Of the [redacted] selected in this first cut, [redacted] were duplicate records. Therefore, [redacted] new records were similarly selected that had identical Round and Level characteristics of the identified duplicates. This yielded [redacted] unique sample homeowner records / files.

5. Results:

a. The distribution of the sample appears below, along with a broad comparison of the resulting sample to the population (by branch office). The results indicate that the random sample properly represents the distribution of the billed value of the population. Furthermore, they indicate that the sample also fairly represents the distribution of billed value across the various branches. The sample of [redacted] was therefore the basis for more refined selections.

6. Second Stage – Test Case File Selection:

a. For testing purposes, a narrower list had to be selected. Time and labor limitations as well as geographical constraints would not have permitted an examination of all [redacted] case files. Therefore, a subset of [redacted] files was employed for testing, based on a subset of offices. [redacted] files were examined in Chicago (the largest office) and smaller subsets were employed from the remaining branches.

b. The maximum margin of error (based entirely on the size of the sample and assuming a Gaussian / Normal distribution) for this population and subsample size is 5.2%, at a level of confidence of 95%.

ACORN Housing Corporation (AHC)
Billed Value of Reported Counseling Units at 31 October 2009

Branch (Interpreted)	1	2	3	Total	Share
Chicago	[redacted] (b) (4)				11.1%
Springfield					7.1%
St. Paul					6.8%
Fresno					5.2%
El Paso					5.0%
Miami					4.7%
Orlando					4.6%
San Jose					4.1%
Phoenix					3.8%
AHC - CA Housing					3.3%
Baltimore					3.2%
Tampa					3.1%
Sacramento					3.0%
Bridgeport					2.9%
Milwaukee					2.7%
Portland					2.6%
Philadelphia					2.4%
Florida					2.2%
Providence					2.2%
San Antonio					2.1%
NY City					2.1%
Albuquerque					2.0%
Oakland					1.7%
Dallas					1.7%
Washington, DC					1.6%
Las Vegas					1.5%
Kansas City					1.4%
Houston					1.1%
Atlanta					0.8%
Boston					0.8%
Los Angeles					0.7%
Seattle					0.6%
New Orleans					0.5%
San Diego					0.4%
San Bernadino					0.3%
AHC - Florida					0.2%
Newark					0.1%
St. Louis					0.1%
California					0.1%
Hyattsville					0.0%
Baton Rouge					0.0%
Southern California					0.0%
Grand Total	4,723,050	5,316,400	5,220,200	**15,259,650**	100.0%

Figure 3

ACORN Housing Corporation (AHC)
Break-Out of 1,000 Sample Client Files

	Level					
Branch (Interpreted)	**1**	**2**	**3**	**Grand Total**	**Share**	**Diff. With Popul.**
Chicago	(b) (4) [redacted]				11.7%	0.6%
St. Paul					7.1%	0.3%
Springfield					6.6%	-0.5%
Miami					5.9%	1.2%
Fresno					5.7%	0.5%
AHC - CA Housing					5.0%	1.7%
Baltimore					4.5%	1.3%
San Jose					4.3%	0.2%
Orlando					3.8%	-0.8%
El Paso					3.7%	-1.3%
Phoenix					3.6%	-0.1%
Portland					3.2%	0.6%
Milwaukee					2.9%	0.2%
Philadelphia					2.7%	0.3%
Providence					2.7%	0.5%
Sacramento					2.7%	-0.3%
Bridgeport					2.6%	-0.3%
NY City					2.5%	0.4%
Florida					2.2%	0.0%
Tampa					2.1%	-1.0%
San Antonio					1.8%	-0.3%
Albuquerque					1.6%	-0.4%
Las Vegas					1.5%	0.0%
Washington, DC					1.5%	-0.1%
Dallas					1.3%	-0.4%
Oakland					1.3%	-0.4%
Kansas City					1.0%	-0.4%
Boston					0.8%	0.0%
Los Angeles					0.7%	0.0%
Atlanta					0.6%	-0.2%
Houston					0.5%	-0.6%
San Diego					0.5%	0.1%
Seattle					0.5%	-0.1%
New Orleans					0.4%	-0.1%
AHC - Florida					0.3%	0.1%
California					0.1%	0.0%
San Bernadino					0.1%	-0.2%
Newark					0.0%	-0.1%
St. Louis					0.0%	-0.1%
Hyattsville					0.0%	0.0%
Grand Total	**313**	**382**	**305**	**1,000**	**100.0%**	**0.2%**

Figure 4

Number of Sample Files Examined, by Branch

Case File Counts	Approach	Level			
Branch		**L1**	**L2**	**L3**	**Grand Total**
Baltimore	Visit	[redacted]	[redacted]	[redacted]	[redacted]
Chicago	Visit	[redacted]	[redacted]	[redacted]	[redacted]
Los Angeles	Visit	[redacted]	[redacted]	[redacted]	[redacted]
Miami	Visit	[redacted]	[redacted]	[redacted]	[redacted]
NYC	Visit	[redacted]	[redacted]	[redacted]	[redacted]
Phoenix	Visit	[redacted]	[redacted]	[redacted]	[redacted]
St. Paul	Visit	[redacted]	[redacted]	[redacted]	[redacted]
Fresno	Remote	[redacted]	[redacted]	[redacted]	[redacted]
Orlando	Remote	[redacted]	[redacted]	[redacted]	[redacted]
San Jose	Remote	[redacted]	[redacted]	[redacted]	[redacted]
Springfield	Remote	[redacted]	[redacted]	[redacted]	[redacted]
Tampa	Remote	[redacted]	[redacted]	[redacted]	[redacted]
Washington, DC	Remote	[redacted]	[redacted]	[redacted]	[redacted]
Grand Total		92	128	130	350

Figure 5

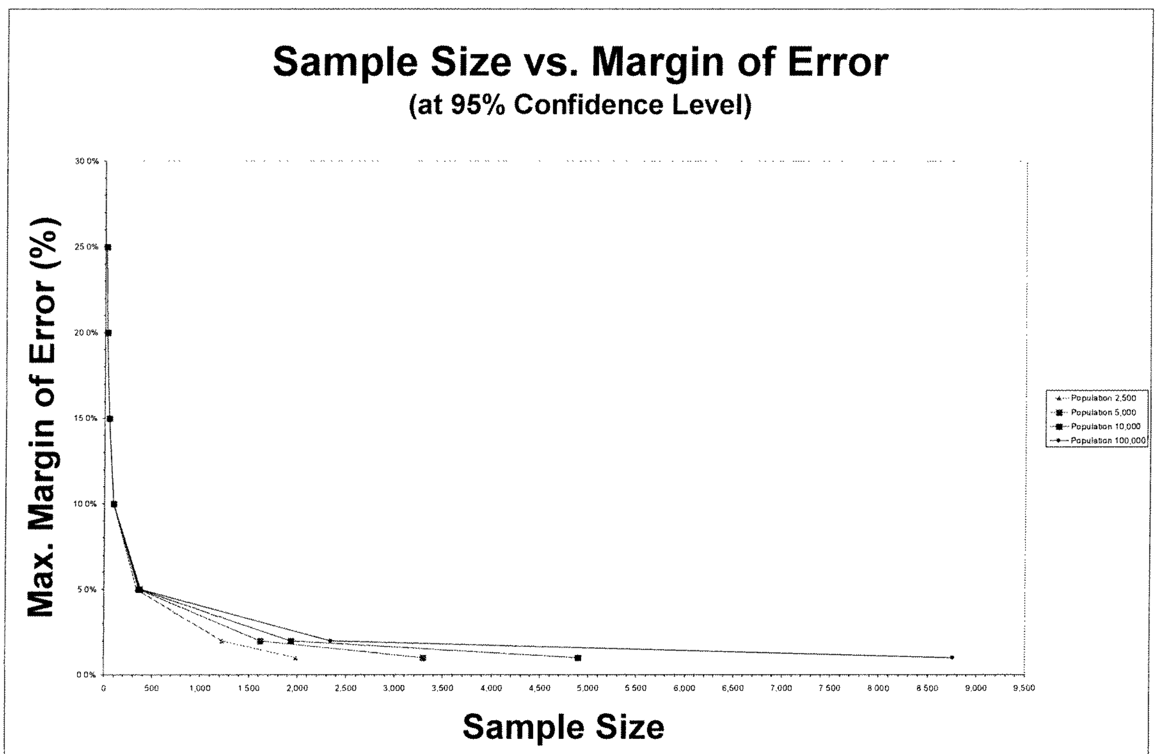

Figure 6

Appendix I

Illustrative Billed Sample Cases with Exceptions

Below are illustrative examples of exceptions in billed cases within the sample of files reviewed.

No.	Client ID	Round	Level Billed	Exception(s)	Description
1.	(b) (4)	R1	L2	No L2 Action Plan; No Contact with Servicer.	Intake was performed on 10 Sept 2008. The homeowner called AHC seeking financing for home repairs and was informed that NFMC does not deal with such loans. The homeowner withdrew from counseling and the case was closed six calendar days after intake. The case was billed to NFMC anyway.
2.	(b) (4)	R1	L3	No Attempted Contact with Servicer	The last contact with the customer occurred on 30 July 2008, at which point the case was billed and closed. There was no further activity reflected in the file until 16 months later, after it was included in a list of sample files to be audited for this review and just one day prior to review). An email was sent to the servicer just one day prior to audit review of the case file.
3.	(b) (4)	R1	L3	No Budget Developed	Intake occurred on 11 June 2008. Property went into foreclosure

					and had actually already been sold on 03 June 2008.
4.	[redacted] (b) (4)	R1	L3	No Budget Verification; No Attempted Contact with Servicer.	Intake was performed on 28 Oct 2008 and The case was closed on 09 Dec 2008, when preparing the first draft budget, because the counselor discovered that the property was not owner-occupied. There was no evidence that the homeowner was not seeking a solution through her servicer. The L3 case was billed on 15 Dec 2008, even though there had been no attempted contact with the servicer.
5.	[redacted] (b) (4)	R1	L3	No Budget Developed reflected in file; Insufficient Budget Verification; No Attempted Contact with Servicer; also No Client Authorization in File,	Intake was performed on 25 April 2008 and the case was closed on 20 May 2008, apparently because the house was included in a bankruptcy filing. The Level 3 case was then uploaded on 29 July 2008. However, the case file, as reviewed onsite and described above, lacked documentation necessary for billing.
6.	[redacted] (b) (4)	R2	L1	No Homeowner Authorization; No Budget Developed at time of service.	No budget was prepared while the case was active. Intake was on 13 Jan 2009 and the case was

					billed on 17 Aug 2009. A budget was started five months after the case had been billed and after AHC learned that the case had been selected for audit but the budget was missing all expenses (including food) except for the mortgage payment. Nor was homeowner authorization received The case was billed at L1, anyway.
7.	[redacted] (b) (4)	R1	L3	No L2 Action Plan; No Attempted Contact with Servicer	The AHC counseling manager on site confirmed to the audit team that that the action plan supporting documentation was missing. Intake was on 05 Feb 2009 and the case was uploaded (billed) on 16 Mar 2009.
8.	[redacted] (b) (4)	R1	L3	No Close-Out following case activity	(i) Intake on the case was performed on 18 Nov 2008 and the case was billed on 08 Dec 2008. According to AHC Management, on 16 Dec 2008, the homeowner decided she would no longer work with the grantee towards resolution of her case. There was no recorded activity in the case for eight months (08 Dec 2008 to 20 Aug 2008). The case was not actually

					closed until 23 Oct 2009, 10 months after the homeowner had made her decision and it had been billed.
9.	[redacted]	R1	L3	No L2 Action Plan; No Attempted Contact with Servicer while case was active.	Intake on the case was on 30 Oct 2008 and the case was billed on 22 Dec 2008. The only reference to contact with the servicer appeared as late as December 2009 and was in the form of HELP notes indicating plans to attempt to contact the servicer at that time to inquire about the case status.
10.	[redacted]	R2	L2	Insufficient Budget Verification; No L2 Action Plan; No Contact with Servicer at time of service (also, Level 1 was billed and paid in duplicate)	AHC's paperwork got lost between branches and the homeowner claims to have sent AHC the requested forms 4 times over a course of eight months. The homeowner could not readily contact AHC about his emergency because AHC's voice-mail box was full. The home was sold shortly after intake. Level 1 case was intaked under different client IDs by 2 AHC branches, billed **in duplicate** (despite AHC's implementation of HELP) and paid in duplicate by NWA.
11.	[redacted]	R2	L2	No Attempted Contact with	The case had been closed because of

				Servicer while the case was active	insufficient documentation. Intake was performed on 28 Jul 2009 and the case was closed on 13 Oct 2009. Level 1 and Level 2 were billed on 14 Sep and 19 Oct 2009, respectively. The first reference to Contact with the Lender occurred two months later, after informing AHC of this case' inclusion in the audit sample.
12.	(b) (4)	R1	L2	No L2 Action Plan; Also Insufficient Budget Verification; (also regarding L1, Developed Budget was missing from file)	Intake was on 20 Aug 2008. Levels 1 and 2 were billed on 25 Sept 2008 and 24 Nov 2008, respectively. Level 2 was billed despite insufficient budget verification support in the files and a missing Action Plan for L2.
13.	(b) (4)	R1	L2	Insufficient Budget Verification; No Contact with Servicer at time of service; (Also, No Budget Developed in L1)	Neither Level 1 nor Level 2 should have been billed. Intake was on 03 Nov 2008. The cases were billed on 17 Nov 2008 and 01 Feb 2009 for Levels 1 and 2, respectively. The case was closed on 26 Jan 2009. However, the budget is effectively missing (reflected total expenses = zero) and was developed only two days prior to its

					announced review and 12 months after having been billed for Level 1. Also, neither income verification nor expense verification was evidenced in file.
14.	(b) (4)	R2	L2	No Contact w/ Servicer; Insufficient Budget Verification; No Written L2 Action Plan	Intake on the case was 17 June 2009 and the case was uploaded (billed) on 20 July 2009. (i) Under the circumstances, if the case was not sent to the servicer, then the L2 case should never have been billed to NFMC. (ii) A credit report had been noted but there is insufficient information to verify the budget; there is no support for income and none for expenses. (iii) As agreed by AHC Management, there was no updated action plan for L2.
15.	(b) (4)	R2	L3	Insufficient Budget Verification; No Contact w/ Servicer	(i) AHC states that "The case did not move forward because of the client's failure to provide necessary documents." (ii) The audit observation was that there was insufficient budget verification (not that a budget was missing); (ii) Intake was on 06

					Nov 2008, the case was closed on 05 Jul 2009 and uploaded (billed) on 20 Jul 2009. The servicer was sent an email on 30 Nov 2009, 5 months after the case was closed and billed, and only after AHC received the list of sample files to be gathered in connection with this audit and only two days before the audit team arrived on site to review the file; clearly, contact with the servicer in support of the case was not attempted until after the case was no longer open or active."
16.	[redacted] (b) (4)	R1	L3	Insufficient Budget Verification; No Contact with Servicer at time of service	Neither income nor expense documentation was in case file, despite recent (post-review) materials sent by AHC. Intake was on 05 June 2008. The action plan called for sending a workout to lender but first attempted contact with the servicer occurred on 01 Dec 2009, the afternoon immediately prior to audit review, 16 months after the case was closed and billed.
17.	[redacted] (b) (4)	R2	L2	No Close-Out, No L2 Action Plan; No Contact	Intake was on 18 May 2009 and the L1 case uploaded (billed) on

				with Servicer; Inadequate Budget*	18 June 2009, the case was closed on 13 Aug 2009 and the L2 case was uploaded (billed) on 17 Aug 2009. (i) The homeowner had not expressed, from the outset of Level 2, an interest in restructuring his mortgage payments, thus, he sought AHC's assistance in dealing his servicer / creditor (see Hardship Letter). There was no expressed interest in either a short-sale or in applying for local resource options such as refinance programs or rescue funds; therefore, AHC would have had to at least attempt contact with the servicer to help resolve the delinquency; (ii) Moreoever, there was no evidence of AHC's substantive assistance in either pursuing refinance programs/rescue funds or a short sale; just a list of 16 telephone numbers of organizations in the Orlando area). (iv) The budget information in the file from HELP* system was entirely empty (nothing for either income or expenses).
18.	[redacted]	R2	L2	No Contact with	Intake was on 02 Feb

				Servicer; Insufficient Budget Verification	2009 and the L2 case was billed on 29 June 2009. There was neither contact with the servicer nor sufficient budget verification evident in the case file.
19.	[redacted]	R2	L1	No Budget Developed	No budget information whatsoever (either income or expenses) was included in the case file. Intake was 07 April 2009 and Level 1 was billed on 17 June 2009.
20.	[redacted]	R1	L2	No Close-Out	Intake was on 23 Dec 2008 and Levels 1 and 2 were billed on 22 Feb 2009 and 02 Mar 2009, respectively. The file was closed more than nine months later, on 14 Dec 2009, after it had been disclosed to AHC as part of the audit sample. The closeout letter was unsigned.

* AHC Management provided a copy of a manually developed budget for this homeowner only after fieldwork was completed. The earlier version (as reflected in HELP) was entirely incomplete.

Appendix J

[redacted]

May 29, 2009

[redacted]
Southern California Regional Director
ACORN HOUSING, SAN DIEGO
3554 University Avenue
San Diego, CA 92104

Re: NFMC Counseling Quality Assessment Reviews

Dear Mr. Nelson:

[redacted] was selected by NeighborWorks America (NWA) to evaluate the quality of the foreclosure counseling services provided by recipients of the NFMC program funds. The Counseling Session Assessment reviews were based on and anchored to the National Industry Standards for Homeownership Counseling-Foreclosure Intervention Specialty.

The following Observations and Recommendations are suggested for your agency to follow the National Industry Standards for Homeownership Counseling Foreclosure Intervention as it relates to your work with the National Foreclosure Mitigation Counseling Program. These are suggestions, not requirements. However we believe that the National Industry Standards will assist your agency in continuing to assist foreclosure counseling clients.

During the reviews, a consultant with [redacted] conducted a brief interview with counseling staff, observed a counseling session and/or reviewed NFMC client case files to determine if your agency followed the process workflow outlined in the National Industry Standards for Homeownership Counseling-Foreclosure Intervention Specialty.

Based on our quality assessment review conducted on January 9, 2009, your agency:

☐ **Meets Minimum Operational and Performance Standards**

X **Does Not Meets Minimum Operational and Performance Standards**

(OBSERVATION) FINDINGS:

Reviewer noted:

Counselor needs additional training in the specific area of the foreclosure and more spefic to the documentation required for submitting a loss migtigation resolultion to a Servicer.

RECOMMENDATION:

The National Industry Standards for Homeownership Counseling-Foreclosure Intervention Specialty states that counselors should possess a strong knowledge in the area of mortgage default and/or foreclosure intervention counseling, specifically relating to the current industry practices of loss mitigation. Counselor should understand the structure of the primary and secondary markets, the collection and loss mitigation functions of those entities collecting mortgage payments, financial management and budgeting, and be familiar with state and federal regulations regarding the foreclosure process.

It is recommended that the Counselor receive additional training in the area of the foreclosure counseling process. It is also recommended that agency management obtain similar training to provide quality assurance reviews of clieint case files.

(OBSERVATION)
Reviewer noted: The current intake process could be improved in order to assist consumers more efficiently in the early stages of the delinquency.

RECOMMENDATION:

The National Industry Standards for Homeownership Counseling-Foreclosure Intervention Specialty states that clients should be counseled immediately (if possible), particularly when a high degree of certainty that foreclsoure is imminent. At a minimum, upon request, clients should receive acknowledgement of inquiry within 48 hours of initial contact.

It is recommended that the Agency improve the process for referring case files to their Counselors.

____ We acknowledge receipt of this letter and have no response to the findings noted above.

____ We acknowledge receipt of this letter. Please see our responses attached.

Name: ______________________________

Signature: ______________________________

Title: ______________________________

Date: ______________________________

Appendix K

NeighborWorks®
AMERICA

To: Ken Wade, Eileen Fitzgerald, Michael Forster, Jeff Bryson

From: Frederick Udochi

cc: Jeanne (Reitz) Fekade-Sellassie, (b) (4) [redacted] (Internal Audit Consultant)

Date: August 25, 2008

Subject: **Audit Review: ACORN Housing Corporation (AHC)**

As part of our continuous monitoring within the context of the Internal Audit Plan for the National Foreclosure Mitigation Counseling (NFMC) Program, please find below an internal audit report pertinent to the ACORN Housing Corporation (AHC). Please review and let me know if you have any comments or questions.

Summary of Observations and Recommendations[1]:

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation (Received on 9/29/08)	Estimated Date of Implementation	Internal Audit Comments on Management Response
A. An unqualified audit opinion was provided on the consolidated financial statements of AHC with 6 control deficiencies noted in the report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an audit of financial statements performed in Accordance with Government Auditing Standards. **Risk rating:** [redacted]	Yes. Through a competitive process, [redacted], a national public accounting firm was selected to review the audits submitted to NFMC through the NFMC grant application; and our Organizational Assessment Division reviewed [redacted] report in detail and assigned risk ratings. Acorn Housing Corporation's unqualified audit was reviewed and all deficiencies itemized were noted during the review and related to sub-standard reconciliations, timing and practices for supervisory reviews, etc.; these factors resulted in an NFMC compliance risk rating of 'High'; the materiality of the deficiencies did not qualify the auditor's opinion and thus did not elevate the overall risk to warrant follow-up in the pre-award phase. Only two organizations had findings that required follow-up before grant awards could be made. Grants for two additional organizations were delayed until an up to date audit was received.	It is recommended that AHC be immediately placed on a priority listing for an on-site compliance visit and request for management's response to the findings in a Corrective Action Plan. In addition, a copy of the most recent audited financial statements, presumably FY 2007, should be provided to NeighborWorks® America.	**Yes.**	On-site compliance visit: Yes. AHC has already been identified through our regular risk-scoping system as an organization that will be granted an on-site compliance review. AHC's corporate office will be visited as well as 3 of their branch offices: San Diego, Kansas City, and Phoenix. Management will request a copy of the Corrective Action Plan developed by AHC's management in response to the deficiencies noted in their audit. Note however that in [redacted] independent review of AHC's audit during the grant review process for NFMC Round 1, it was determined that the six control deficiencies did not rise to a level that made AHC ineligible to receive a grant. In the event any issues are uncovered during the NFMC compliance visit, management will appropriately address them at that time. Regarding audited financial statements: it is anticipated that AHC will be applying for NFMC Round 2 funds and will be required to submit these with their application when/if they apply. We will share the updated reports with Internal Audit.	On-site compliance visit: These will occur before the end of the Calendar Year. Audited financial statements: we will supply these to the Internal Audit team before October 30, 2008.	Internal Audit accepts Management's response.

[1] 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	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation (Received on 9/29/08)	Estimated Date of Implementation	Internal Audit Comments on Management Response
B. It was observed that there is a vendor contract with ACORN (Texas branch office). **Risk rating:** (b) (4)	Yes. AHC made us aware of this prior to entering into a contractual relationship with ACORN and our Office of General Counsel vetted the request in terms of whether AHC could enter into a vendor rather than sub-recipient agreement with ACORN.	It is recommended that Management also obtain as part of its due diligence on AHC any intended action or non action in respect of Section 10.3.2 in the Vendor Agreement between AHC and Texas ACORN given the public disclosures from the *New York Times*.	**Yes.**	Management will request that AHC inform us of any intended action or non-action in respect to this section of their vendor agreement with ACORN.	We will request this be submitted by October 15, 2008.	Internal Audit accepts Management's response.

<u>Risk Rating Legend:</u>

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 Recommendations ACORN Housing Corporation (AHC)		
# Of Responses	**Response**	**Recommendation #**
2	Agreement with the recommendation(s)	A, B
0	Disagreement with the recommendation(s)	N/A

Background

On 24 February 2008, NeighborWorks® America (NWA) awarded a grant of $7.9 million to ACORN Housing Corporation (AHC) in connection with the NFMC program, to act as an intermediary in the provision of foreclosure counseling services. This amount would serve to roughly [redacted] AHC's total revenue base (approx. [redacted] in FY2006).

On 01 May of this year, NWA disbursed approximately $3.2 million to AHC to launch the grant. Of the 130 NFMC disbursements affected since the inception of the program, this was the [redacted] largest grant disbursed. The grant balance yet to be disbursed is $4.7 million.

On 09 July 2008, the Internal Audit department located a *New York Times* article[2] reporting an embezzlement and cover-up involving the Association of Community Organizations for Reform Now (ACORN). Internal Audit was made privy to a letter received by management from AHC with the purpose of assuring NWA that AHC and ACORN are entirely separate organizations and that ACORN's reported problems would not have implications for AHC's work under NFMC.

Audit Objective

On 16 July 2008, Internal Audit proposed to initiate a project, within the context of the NFMC Continuous Auditing workstream, to:

- Assess the risks to NFMC and NWA stemming from its grant to AHC and in light of this new information;
- Provide timely recommendations for action (as appropriate) to Management balancing risks and financial / operational considerations.

Scope Limitations on Information

Internal Audit has based its opinions in respect of AHC solely on the grant materials submission from AHC, which included financial statements; AHC's letter to the NWA management; the [redacted]. independent accountants report[3]. Internal Audit has conducted its assessment based on information currently in its possession.

Methodology

To perform the project, Internal Audit examined:

- The grant agreement between NWA and AHC;

[2] The New York Times, July 9, 2008
[3] Firm contracted by the NFMC team to undertake an analysis of Grant Applicant financial statements applying "agreed upon procedures" provided by NWA.

- The audit opinion and financial statements supplied by AHC (related to its fiscal years 2005 and 2006) as part of its application for NFMC funding ((b) (4) [redacted]. report);
- Correspondence between NWA and AHC regarding the events involving ACORN and its affiliates;
- Vendor agreement entered into by AHC with ACORN for outreach services.

Inherent within the assessment of risk would be (*inter alia*):

- Consideration of the nature of the financial and management relationship between AHC and ACORN affiliates;
- The extent to which AHC's NFMC grant execution depends on AHC's affiliates for implementation;
- Any indications regarding the state of internal controls in place at AHC;
- Potential implications to the implementation of NFMC with ACORN in a contractual relationship with AHC..

Appendix A below shows a brief risk assessment as processed with current information.

<u>General Observations</u>

Relationship between AHC and ACORN Affiliates:

In form and structure AHC and ACORN might be incorporated as separate entities, however observed transactions suggest otherwise in substance based on information from the FY 2006 financial statements.

(i) **Financial Links:** In FY 2005 and 2006, at least $2.5 million, or 30% of AHC revenues, were channeled through its affiliated organizations, including ACORN proper and Citizens' Consulting Incorporated (CCI). CCI provides bookkeeping, accounting, corporate and administrative services to AHC as well as other ACORN affiliates. AHC incurred costs of at least $350K and $329K to CCI in FY2005 and FY2006, respectively over the sharing of offices and facilities. The sharing of overhead expenses between the sister organizations is also extensive, including over $100K just in office space expenses to ACORN proper.

(ii) **Control:** While recognizing that AHC and its affiliates are overseen by independent boards of directors, the notes to AHC's FY 2005-2006 financial statements states that AHC *"is one of a number of nonprofit organizations dedicated to various community service projects. These nonprofit organizations are also under certain common controls by individuals who could exercise influence over their day-to-day decisions."*

(iii) **Common Bookkeeping Service Provider:** Based on the FY 2005-2006 financial statements AHC employs CCI for its bookkeeping and accounting services, as do ACORN and other ACORN affiliates. CCI is registered as a non-profit corporation in the state of Louisiana with an address the same as ACORN and its affiliates.

Observations noted for Recommendations

A. Reliability of Accounting & Reporting

An unqualified audit opinion was provided on the consolidated financial statements of AHC with 6 control deficiencies in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.* Five were considered to be significant deficiencies and one a material weakness. There was no information provided showing that these deficiencies had been resolved. The nature of these deficiencies ranged from poor cutoff of receipts and payables, improper reconciliation of accounts receivable to general ledger and related payables and receivables in inter-company transfers not reconciled.

B. Vendor Contract with ACORN (Texas branch office)

Prior to the *New York Times* disclosures AHC had entered into a contractual vendor agreement for the purchase of outreach services with ACORN in the total amount of (b) (4) with the Texas branch of ACORN. This contract was dated April 15th 2008 and inclusive in the contract agreement is mention of a Termination for Cause clause as follows:

Under Section 10.3 Termination for Cause it also states that this Agreement may be terminated for cause, in whole or in part, by AHC upon written notice to the Vendor. The term "cause" shall include, but not be limited to:

Section 10.3.1 a material breach of any term of the Agreement, provided that Vendor shall have fifteen (15) days to cure the such breach (which period may be extended in the sole discretion of AHC) after receiving notice of the material breach thereof from AHC;

Section 10.3.2 the occurrence or public disclosure of, or criminal indictment for, any past or present act or omission by Vendor or any of its related companies, employees, agents, accountants, or contractors that is reasonably determined by AHC to be materially detrimental to the reputation, operation or activities of AHC;

As part of our due diligence on the grant funds awarded to AHC by NWA, it would be appropriate in the Corporation's role as grant administrator to request if AHC intends to invoke this clause in light of the recent public disclosure by the *New York Times* which to date has not been refuted by ACORN.

Recommendations

NWA has a fiduciary responsibility as grant administrators of the NFMC program in the disbursement of grant funds to its recipients. Based on the foregoing, we recommend the following for Management's consideration:

A. It is recommended that AHC be placed immediately on a priority listing for an on-site compliance visit as part of the quality control/compliance monitoring function. The Corporation has currently contracted this function out. Inclusive with the scope for the compliance visit with AHC should be the request for Management's response to the findings in a Corrective Action Plan. In addition, a copy of the most recent audited financial statements, presumably FY 2007, should be provided to NWA.

B. It is recommended that management also obtain as part of its due diligence on AHC any intended action or non action in respect of Section 10.3.2 in the Vendor Agreement between AHC and Texas ACORN given the public disclosures from the *New York Times.*

The results of all inquiries and recommendations should be communicated to NWA's Management and Internal Audit department.

Appendix A

Assessment of Risks

Category	Description	Relevance	Probability of Occurrence
Reliability of Accounting & Reporting	An unqualified audit opinion was provided on the consolidated financial statements of AHC with 6 control deficiencies in the *Report on Internal Control Over financial Reporting and on Comliance and Other Matters Based on an Audit of financial statements Performed in Accordance with Government Auditing Standards*. Five were considered to be significant deficiencies and one a material weakness.	High	(b) (4)
Vendor Contract of AHC with ACORN	Based on the new disclosures concerning ACORN there needs to be an assessment on the potential violation of the Vendor Agreement with AHC and implications for NWA.	Moderate	(b) (4)
Program Risk	Program risks fall on two sides. On the one hand, either a rescission of the grant or implementation of grant recapture could risk delivery of the 24,000 counseling units assigned. On the other hand, there is the potential of disruption to the NFMC program with AHC due to fallout from the ACORN scandal, shortfalls in donations or management upheavals which could undermine achievement of the NWA program. There is no evidence to support this scenario at this time.	Moderate	(b) (4)

Appendix L

ACORN HOUSING

July 9th, 2008 209 W. Jackson, Suite 301, Chicago, IL 60606 P: 312-939-1611 F: 312-939-4239

Mr. Ken Wade
Chief Executive Officer
Neighborworks
1325 G Street, NW
Suite 800
Washington, DC 20005

Dear Ken,

I'm writing to make sure that you're aware of some problems a close partner organization has encountered and to assure you that these problems do not involve ACORN Housing Corporation's (AHC) work under our National Foreclosure Mitigation Counseling grant with Neighborworks.

Over the past few weeks the Association of Community Organizations for Reform Now has been focusing on steps taken in 2000 by its Chief Organizer, Wade Rathke, when he learned that a family member had misappropriated funds. The Association's Board of Directors learned of Mr. Rathke's actions in June and decided it was time for him to go.

The Executive Director of New York ACORN, Ms. Bertha Lewis, has been named to head ACORN's interim management committee that will oversee the operation of the organization and make the necessary changes to make sure this will never happen again. Bertha is a fiery leader with a history of winning major victories for New York's poor. She is intent upon cleaning house. Today's New York Times quotes her as saying: "Now that this is under our watch, we are putting financial auditors in place, legal counsel in place, a strong management team in place to make sure this organization moves forward for another 38 years," [Ms. Lewis] said. "I will not allow and the board will not allow something like this to happen again."

As you know, the ACORN Housing Corporation and the Association of Community Organizations for Reform Now are separate organizations, each with its own corporate status, boards, and each with its own history.

- There is NO overlap between the Board of Directors of ACORN Housing Corporation and the Board of Directors of the Association of Community Organizations for Reform Now.
- AHC has an independent executive director and management staff, with a national headquarters in Chicago, Illinois. The chief organizer of ACORN was headquartered in New Orleans, Louisiana, with no authority over AHC.

- AHC's finances are completely independent from those of ACORN or any other non-exempt organization. AHC engages a Certified Public Accounting firm with no connection to ACORN to perform an A-133 audit of government funds as well as an overall annual audit of all financial activity. In addition, approximately 25% of AHC's offices are audited each year by the US Department of Housing and Urban Development as part of our federal funding for housing counseling.
- As a tax-exempt nonprofit organization under section 501 c 3 of the IRS tax code, AHC is extremely careful to insure that its staff does not participate in demonstrations, lobbying, or political activity of any kind.

While AHC is distinct from ACORN, we have often partnered with them. We're proud of the role that partnership has played in creating and sustaining affordable homeownership for low and moderate-income families. ACORN remains a unique community force in America, with its ability to reach and engage low and moderate income people.

AHC is currently working with several groups, including ACORN, and over 30 mortgage servicers to identify homeowners facing foreclosure and help them to save their homes.

As part of our NFMC grant, AHC has executed vendor contracts with ACORN for outreach services to homeowners who have fallen behind on their mortgage payments. Under these contracts, ACORN is to identify and deliver eligible homeowners (and their documents) to AHC for counseling help. The contracts are arms-length contracts that provide compensation for each distressed homeowner that is delivered for counseling. They were drafted by [redacted] of the Washinton, D.C. based law firm of [redacted] and were vetted by our auditor. Please find a copy of the contract attached to this letter.

Although we are saddened to see ACORN going through a difficult time, we are confident that under the new leadership of Bertha Lewis the organization will emerge stronger than ever. In the meantime, with your continued support, ACORN Housing will continue to provide foreclosure prevention counseling that saves the American Dream of homeownership for thousands of Americans.

Please do not hesitate to call me if you have questions or seek additional information.

Sincerely,

Mike Shea

Mike Shea
Executive Director

VENDOR AGREEMENT FOR PURCHASE OF SERVICES

THIS VENDOR AGREEMENT ("the Agreement") is hereby entered into as of this 15th day of April, 2008, by and between ACORN Housing Corporation, Inc. ("AHC"), and Texas Association of Community Organizations for Reform Now ("Texas ACORN" "Vendor") (individually "the Party" and collectively "the Parties") to set forth the objectives, understandings, and agreements between the Parties.

WHEREAS, AHC, a not-for-profit corporation, has received a grant under the National Foreclosure Mitigation Counseling ("NFMC") Program (the "Prime Agreement") from the Neighborhood Reinvestment Corporation doing business as NeighborWorks® America ("NeighborWorks") to receive federal funds for the purpose of providing mortgage foreclosure intervention and loss mitigation counseling in states with high rates of default and foreclosures to owner-occupants of single family (one to four unit) properties that are delinquent on their mortgages or are at risk of default and foreclosure.

WHEREAS, AHC's responsibilities include providing mortgage foreclosure intervention and loss mitigation counseling and ensuring compliance with the terms and conditions of the Prime Agreement;

WHEREAS, AHC has the approval of NeighborWorks and desires, for reasons of administrative ease, to procure from Vendor certain services involving outreach to persons who may be in need of mortgage foreclosure intervention and loss mitigation counseling; and

WHEREAS, Vendor desires and is qualified to enter into this Agreement with AHC and agrees to deliver the services described herein in accordance with the requirements set forth below;

NOW THEREFORE, in consideration of the mutual promises and covenants herein contained and intending to be legally bound hereby, AHC and Vendor agree as follows:

SECTION 1. TYPE OF AGREEMENT.

This is a fixed-price contract funded under a federal grant awarded to AHC from the National Foreclosure Mitigation Counseling ("NFMC") Program, administered by the Neighborhood Reinvestment Corporation doing business as NeighborWorks® America ("NeighborWorks").

SECTION 2. SERVICES/SCOPE OF WORK.

Vendor will deliver to AHC eligible homeowners with completed referral/intake paperwork who are owner-occupants of single family (one to four unit) properties that are delinquent on their mortgages, or are at risk of default and foreclosure. Such eligible homeowners shall be delivered to AHC so that they can receive NFMC mortgage foreclosure intervention and loss mitigation counseling conducted by AHC. Vendor will deliver such homeowners and completed referral/intake paperwork as more specifically described in **Addendum A**, Scope of Work," attached hereto and incorporated by reference herein.

SECTION 3. PAYMENT.

3.1. Upper Limit to Be Paid. AHC hereby agrees to compensate Vendor using a Price-Per-Eligible-Referred-Client, based on the provision of Level 1 and Level 2 services (as defined in **Addendum** A) to clients referred by Vendor to AHC pursuant to this Agreement, up to a total amount of $[redacted] Vendor is not entitled to any payments over and above the predetermined upper limit to be paid.

3.2. Payment for Eligible-Referred-Level-1-Clients. AHC will pay Vendor $[redacted] Per-Eligible-Referred-Level-1-Client delivered by Vendor to AHC.

3.3. Payment for Eligible-Referred-Level-2-Clients. AHC will pay Vendor [redacted] Per-Eligible-Referred-Level-2-Client delivered by Vendor to AHC.

3.4. Payment for Eligible-Referred-Level-2-Clients Where Referral for Level 1 Services Has Already Been Invoiced. AHC recognizes that there may be situations in which Vendor has completed a referral for a Level 1 client and has invoiced AHC for the associated Level 1 Client payment, but Vendor then gathers additional information and documents necessary for such client's Level 2 services. In such cases, AHC will pay Vendor an additional amount of $[redacted] Per-Eligible-Referred-Level-2-Client Where Referral for Level 1 Services Has Already Been Invoiced, delivered by Vendor to AHC.

3.5. Basis for Payment. The fixed-price amounts payable to Vendor described in this SECTION 3 are based on Vendor's good faith estimate of its costs in performing its obligations pursuant to this Agreement, specified in **Addendum B**, attached hereto and incorporated by reference herein.

3.6. Advance. As an advance against amounts due to Vendor, AHC will pay to Vendor $[redacted] within five (5) days of execution of this Agreement. Such advance amount will be credited to AHC and deducted from amounts due to Vendor in three (3) equal installments over the first three (3) months of the Agreement, based on verified monthly invoices.

SECTION 4. LIMITATION ON FEDERAL FUNDS.

This Agreement is subject to the availability of federal grant funds under the NFMC Program provided by NeighborWorks to AHC. AHC shall notify Vendor, in writing, of any modification, payments, delays, or cancellations of said funds by NeighborWorks. This Agreement, and any and all obligations to Vendor, may be terminated by AHC, in whole or in part, because of a reduction in anticipated funding to AHC from NeighborWorks pursuant to the NFMC Program.

SECTION 5. PAYMENT PROCEDURES.

5.1. No later than the 10th day of each month, Vendor will provide to AHC a monthly invoice for its services in the form specified by AHC, at **Addendum C**, Sample Invoice and Attachments, attached hereto and incorporated herein.

5.2. Vendor's monthly invoices to AHC shall include a list ("the monthly list") of the clients referred by Vendor to AHC during the invoice period and, for each client respectively, the type of client (Level 1, Level 2, or Level 2 with prior invoice for Level 1 referral) referred by Vendor, and the address of the client's property. Clients will be listed by name in alphabetical order. The monthly list will be provided in electronic form in an Excel spreadsheet or in such other format as AHC directs.

5.3. In addition, when Vendor provides AHC with an invoice for its services, it will also provide to AHC a list ("the global list") of all clients referred by Vendor to AHC during the term of this Agreement and, for each client respectively, the type of client (Level 1, Level 2, or Level 2 with prior invoice for Level 1 referral) referred by Vendor, and the address of the client's property. Clients will be listed by name in alphabetical order. The list will be provided in electronic form in an Excel spreadsheet or in such other form as AHC directs.

5.4. Vendor shall only be paid for properly invoiced amounts. In addition, Vendor shall be paid only once for provision of services to members of a household, and Vendor shall not be paid for other duplicates or ineligibles.

5.5. Within ten (10) business days of receiving payment from NeighborWorks for mortgage counseling services provided by AHC to clients referred by Vendor, AHC will pay Vendor amounts due for its services related to those clients.

SECTION 6. OVERSIGHT, REPORTING AND RECORD KEEPING.

6.1. Subsequent Determinations of Ineligibility. Vendor expressly understands and agrees that if AHC, NeighborWorks or another appropriate authority subsequently determines that individual clients referred by Vendor are ineligible under the NFMC Program, Vendor will repay to AHC any amounts previously paid for such referrals. AHC reserves the right to offset any amounts due to Vendor by amounts that must be repaid.

6.2. Reporting. Vendor shall maintain and furnish to AHC monthly reports, as specified above in SECTION 5 ("Payment Procedures") in such forms as AHC may reasonably prescribe.

6.3. Supporting Documentation. All applicable and appropriate supporting documentation of costs incurred by Vendor, including but not limited to, payroll records, invoices, contracts or vouchers, shall be maintained and made available to AHC upon request consistent with this SECTION 6. If AHC or NeighborWorks requires further information or documentation on a referred client, Vendor will supply that information or documentation accordingly.

6.4. Additional Reports. AHC reserves the right to request additional reports from Vendor as it deems reasonable under the circumstances or as based on any changes in applicable funding requirements.

6.5. Record Keeping and Access

6.5.1. AHC shall be the owner of all documents and data gathered during Vendor's performance of services under this Agreement. Within thirty (30) days of the end of the term of this Agreement, Vendor will provide to AHC all copies of documents and data that contain information about clients and prospective clients, whether in hard copy or electronic form. After provision of these materials to AHC, Vendor will not retain any of the documents or data gathered from clients or prospective clients during its performance of services under this Agreement.

6.5.2. Vendor shall make available to AHC, NeighborWorks, the Comptroller General, or any of their duly authorized representatives, upon appropriate notice, such books, records, reports, documents, and papers as may be necessary for audit, examination, excerpt, transcription, and copy purposes, for as long as such records, reports, books, documents, and papers are retained. This right also includes timely and reasonable access to Vendor's facility and to Vendor's personnel for the purpose of interview and discussion related to such documents.

6.5.3. Vendor further agrees to permit AHC to evaluate, through inspection or other means, the quality, appropriateness, and timeliness of the services delivered under this Agreement.

SECTION 7. GOVERNING LAWS AND PRIORITY.

7.1 Grant-Related Laws, Regulations, and Policies. This Agreement shall be governed and construed in accordance with the terms and conditions of the grant awarded from NeighborWorks to AHC under the Prime Agreement. The terms and conditions of the Prime Agreement take priority over the terms of this Agreement. Anything in this Agreement that contradicts the terms and conditions of the Prime Agreement shall be stricken.

7.2. Compliance with other Applicable Law. In connection with the provision of services pursuant to this Agreement, Vendor agrees to comply with the following requirements, to the extent that such requirements are applicable:

7.2.1. the Civil Rights Act of 1964 and all other federal, state, or local laws, rules, and orders prohibiting discrimination. Consistent with the foregoing, the Parties agree to comply with E.O. 11246, "Equal Employment Opportunity," as amended by E.O. 11375, "Amending Executive Order 11246 Relating to Equal Employment Opportunity," and as supplemented by regulations at 41 CFR part 60, "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor";

7.2.2. the standards set forth in Section 102 of the Contract Work Hours and Safety Standards Act (40. U.S.C. § 327-333), as supplemented by Department of Labor regulations (29 CFR part 5), as applicable;

7.2.3. all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act as amended (33 U.S.C. 1251 et seq.).

7.2.4. the certification requirements of the Byrd Anti-Lobbying Amendment (31 U.S.C. § 1352), as applicable.

7.3. Certification of Non-Debarment. Vendor hereby certifies, in accordance with Executive Orders 12549 and 12689, "Debarment and Suspension," that it has not been debarred or suspended from participation in any federal grant programs or any federally-funded contracts.

SECTION 8. RELATIONSHIP OF THE PARTIES/RELATIONSHIP OF VENDOR STAFF.

8.1. Relationship of the Parties. AHC and Vendor shall remain separate and independent entities. None of the provisions of this Agreement are intended to create, nor shall be deemed or construed to create, any relationship between or among the Parties other than that of independent contractors. Except as otherwise provided, neither of the Parties shall be construed to be the agent, partner, co-venturer, employee, or representative of the other Party.

8.2. Relationship of Vendor Staff to AHC. Nothing contained in this Agreement is intended, and nothing herein shall be construed, to create an employer/employee relationship between AHC and any staff through which Vendor provides the services hereunder. As such, such persons shall not be covered by, or entitled to, any insurance, including worker's compensation, or other benefits maintained by AHC for its employees. Upon request, Vendor will secure appropriate acknowledgment of this status from individual staff.

SECTION 9. TERM.

This Agreement shall remain in effect from April 1, 2008 through June 30, 2008 or unless the Agreement is terminated at an earlier date in accordance with SECTION 10 ("Termination") of this Agreement. The Parties may, by mutual written agreement, extend this Agreement.

SECTION 10. TERMINATION.

The terms of this agreement are contingent upon sufficient funding being received by AHC from NeighborWorks. If sufficient funding is not received from NeighborWorks, or if NeighborWorks should cancel its agreement with AHC or suspend or end its agreement to pay for the services of AHC, then this Agreement shall terminate upon written notice being given by AHC to Vendor. AHC's decision as to whether sufficient funding is received from NeighborWorks shall be in the sole discretion of AHC and shall be accepted by Vendor and shall be final.

10.1 Termination By Mutual Agreement. This Agreement may be terminated, in whole or in part, at any time upon the mutual agreement of the Parties.

10.2 Automatic Termination. This Agreement shall immediately and automatically terminate upon the expiration of the Term unless otherwise extended in writing, as per SECTION 9 ("Term").

10.3. Termination for Cause. This Agreement may be terminated for cause, in whole or in part, by AHC upon written notice to Vendor. The term "cause" shall include, but not be limited to:

10.3.1. a material breach of any term of the Agreement, provided that Vendor shall have fifteen (15) days to cure such breach (which period may be extended in the sole discretion of AHC) after receiving notice of the material breach thereof from AHC;

10.3.2. the occurrence or public disclosure of, or criminal indictment for, any past or present act or omission by Vendor or any of its related companies, employees, agents, accountants, or contractors that is reasonably determined by AHC to be materially detrimental to the reputation, operation or activities of AHC;

10.3.3. the loss or suspension of any license or other authorization to do business that is necessary for Vendor to perform services under this Agreement;

10.3.4. any material change in the legal or financial condition of Vendor. including but not limited to the decision by any funder or foundation to no longer fund operations of Vendor, or to withdraw grant funds from Vendor, that reasonably indicates that Vendor may be unable to perform as required under this Agreement or that; and

10.3.5. the failure to fully and accurately complete and comply with the requirements and certifications set forth in this Agreement at SECTION 7 ("Governing Laws and Priority").

10.4. Termination Procedures.

10.4.1. In the event of termination for cause, in whole or in part, AHC shall notify Vendor of its decision to terminate the Agreement in writing. In the event of a partial termination for cause, AHC shall also specify in writing the portion of the Agreement to be terminated.

10.4.2. In the event of termination by mutual agreement, the Parties shall agree upon the termination conditions in writing, including the effective date. In the event of a mutual partial termination, the Parties shall also specify in writing the portion of the Agreement to be terminated.

10.5 Remedies. Subject to SECTION 11 ("Dispute Resolution") herein, either Party may avail itself of any and all administrative, contractual and remedies at law and equity if the other Party violates the terms of this Agreement.

SECTION 11. DISPUTE RESOLUTION.

Any dispute arising under this Agreement shall first be resolved by informal discussions between the Parties, subject to good cause exceptions, including, but not limited to, disputes determined by a Party to require immediate relief. Any dispute which has failed to be resolved by informal discussions between the Parties within a reasonable period of time of the commencement of such discussions shall be resolved exclusively by binding arbitration in the State of Illinois, in accordance with the rules of the American Arbitration Association, and which to the extent of the subject matter of the arbitration, shall be binding not only on all Parties to the Agreement, but on any other entity controlled by, in control of or under common control with the party to the extent that such affiliate joins in the arbitration, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

SECTION 12. INDEMNIFICATION, REPRESENTATIONS.

12.1. Indemnification.

12.1.1. Vendor agrees to defend and hold harmless AHC, and its officers, agents, employees and contractors from any and all claims or losses resulting to AHC and/or third parties including attorneys' fees, costs and expenses, arising out of Vendor's: (i) performance, failure to perform or negligent performance of any obligations under this Agreement and any activities supported by the grant award from NeighborWorks to AHC; (ii) violation of any term or condition of this Agreement; (iii) violation of proprietary rights, copyrights, or rights of privacy, arising out of the publication, translation, reproduction, delivery, performance, or use or disposition of any material furnished by Vendor under this Agreement; or, (iv) obligations to third parties incurred by contract or other means in Vendor's performance under this Agreement including any liabilities, debts and amounts due resulting from same.

12.1.2. AHC agrees to defend and hold harmless Vendor, and its officers, agents, employees and contractors from any and all claims or losses resulting to Vendor and/or third parties including attorneys' fees, costs and expenses, arising out of AHC's: (i) performance, failure to perform or negligent performance of any obligations under this Agreement and any activities supported by the grant award from NeighborWorks to AHC; (ii) violation of any term or condition of this Agreement; (iii) violation of proprietary rights, copyrights, or rights of privacy, arising out of the publication, translation, reproduction, delivery, performance, or use or disposition of any material furnished by Vendor under this Agreement; or, (iii) obligations to third parties incurred by contract or other means in AHC's performance under this Agreement including any liabilities, debts and amounts due resulting from same.

12.2. Representations and Continuing Obligations.

12.2.1. Financial Viability, Solvency, and Capacity. This Agreement is based on the representation of Vendor that it is financially viable and solvent, and has the capacity to perform the services under this Agreement.

12.2.2. Purpose of Information Collection. Vendor represents that information it collects from clients and prospective clients under this Agreement will be used to prescribe the services described in this Agreement and for no other purpose.

SECTION 13. NO SOLICITATION.

Vendor's agents, employees and representatives will not solicit any client or prospective clients to buy anything from or pay anything to Vendor or any other person or entity as a condition of receiving mortgage counseling services from AHC or use the name of NeighborWorks or AHC for any purpose except those specified in this Agreement. In discussing AHC's mortgage counseling services with any client or prospective client, Vendor's agents, employees and representatives will not solicit the client or prospective client to pay for membership in TEXAS ACORN; and Vendor's agents, employees and representatives will not suggest that it would help a client or prospective client to receive mortgage counseling from AHC if the mortgage borrower became a member of TEXAS ACORN.

SECTION 14. CONFIDENTIALITY.

14.1. Clients' Confidential Information. In accordance with prevailing federal and state confidentiality statutes, regulations, customs and usage, canons, Vendor (and its employees, agents, and contractors) shall maintain the confidentiality of the personal and financial information of clients and prospective clients and shall not disclose any such information, except to AHC. "Personal and financial information" includes, but is not limited to, Social Security numbers, pay stubs, W-2 and other tax information, bank account numbers, child support payments, alimony payments, household income, household expenses, mortgage terms, mortgage payment, and mortgage loan status.

14.2. Proprietary Information. In addition, the Parties shall not disclose, except to each other as necessary for the performance of services under this Agreement, any proprietary information, professional secrets or other information, records, data and data elements collected and maintained in the course of carrying out the responsibilities under this Agreement, unless either Party receives prior written authorization to do so from the other Party or as authorized or required by law; provided that nothing contained herein shall be construed to prohibit AHC from obtaining, reviewing, and auditing any information, record, data, and data elements to which it is lawfully entitled.

14.3. Survival of Confidentiality Requirements. All confidential obligations contained herein (including those pertaining to information transmitted orally) shall survive termination of this Agreement.

SECTION 15. INSURANCE.

Vendor agrees to secure and maintain, or cause to be secured and maintained, during the term of this Agreement and as appropriate, Worker's Compensation Insurance and Employment Insurance, as well as General Liability Insurance in the amount of one hundred thousand dollars ($100,000.00) for itself and its officers, directors, employees, contractors, and agents. Vendor's General Liability coverage may be satisfied by the national Association of Community Organizations for Reform Now's general liability policy, so long as it meets the amount stated herein. With AHC's prior approval, Vendor may make alternative arrangements. Vendor shall furnish AHC with certificates of all insurance.

SECTION 16. NOTICE.

All notices required to be given under this Agreement shall be in writing, and delivered in person or sent by telecopy, overnight courier or certified mail, return receipt requested, postage prepaid, to the following addresses:

AHC: [redacted] (b) (4)
General Counsel
ACORN Housing Corporation, Inc.
209 W. Jackson, Suite 301
Chicao, IL 60606

Vendor: Texas Association of Community Organizations for Reform Now
Attn: [redacted]
Texas ACORN Head Organizer
[redacted]
Houston TX 77004

The foregoing addresses may be changed and/or additional persons may be added thereto by notifying the other Parties hereto in writing and in the manner herein set forth.

SECTION 17. MISCELLANEOUS.

17.1. Severability. In the event that any one or more provisions of this Agreement are deemed null, void, illegal or unenforceable, this Agreement shall be construed in all respects as if such null, void, invalid or unenforceable provisions have been omitted.

17.2. Assignment. The rights, obligations and responsibilities established herein shall not be assigned, delegated, or transferred by either Party without the express prior written consent of the other Party.

17.3. Entire Agreement; Amendments. This Agreement and its Addenda represent the complete understanding of the Parties with regard to the subject matter. Any amendment to this Agreement shall be in writing and signed by both Parties. Except for the specific provision of this Agreement which thereby may be amended, this Agreement shall remain in full force and effect after such amendment. This Agreement supersedes any other agreements or understandings between the Parties, whether oral or written, relating to the subject matter of this Agreement. No such other agreements or understandings may be enforced by either Party nor may they be employed for interpretation purposes in any dispute involving this Agreement.

SECTION 18. WAIVER OF BREACH.

The waiver by either Party of a breach or violation of any provision of this Agreement shall not operate as or be construed to be a waiver of any subsequent breach or violation of this Agreement.

SECTION 19. FORCE MAJEURE.

Neither Party shall be liable or be deemed in default of this Agreement for any delay or failure to perform any obligation hereunder for any reason beyond its control, including but not limited to, Acts of God, war, terrorism, civil commotion, fire, flood or casualty, labor difficulties, shortages of or inability to obtain labor, materials or equipment, governmental regulations or restrictions, or unusually severe weather. In any such case, the Parties agree to negotiate in good faith with the goal of preserving this Agreement and the respective rights and obligations of the Parties hereunder, to the extent reasonably practicable.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and year written above.

ACORN Housing Corporation, Inc.

By: ______________________
Michael Shea, Executive Director

TEXAS ACOR[redacted]

By: [redacted]

(b) (4)

By: [redacted]

Texas ACORN Overall Budget for AHC Pilot Program

TX 3 month budget Expenses

Budget Item	Houston	Dallas/Ft. Worth	El Paso	RGV	San Antonio	TEXAS Total
OUTREACH						
Mailing	[redacted] (b) (4)					
list procurement						
adverstisement						
flyers						
SALARIES						
Salaries						
Fringe and Benefits						
OFFICE COSTS						
rent						
phones						
supplies						
equipment - rental						
equipment - purchase						
Travel						
Total Costs						

TX 3 month Estimated Income

CITY	TIER 1 CASES	
Houston	(b) (4) [redacted]	
Dallas		
Fort Worth		
El Paso		
RGV		(2 months only)
San Antonio		(2 months only)
Total tier 1 cases		

Estimated Income from Cases

	No. Cases	Dollar Amount	subtotal
total tier 1 cases	[redacted] (b) (4)		
total tier 2 cases (70%)			

Surplus/Loss **$6.41**

Texas ACORN Expenses by City

Houston	1 month	3 months			
Houston Head Organizer Salary (.25FTE)	$	(b) (4) [redacted]			
Payroll Taxes	$				
Health	$				
Pension	$				
Project Director Salary (1 FTE)	$				
Payroll Taxes	$				
Health	$				
Pension	$				
Outreach/Intake (1 FTE)	$				
Payroll Taxes	$				
Health	$				
Pension	$				
2 PT Outreach/Intake Staff ($8/hr@29hrs weekly)	$		(2 months only)		
Payroll Taxes	$				
Pension	$				
1 PT Foreclosure Prevention Fair Coordinator	$		(5 weeks only)		
Payroll Taxes	$				
Pension	$				
RENT ($936/month @ 50%)	$				
PHONE ($800/month @ 50%)	$				
LIST PROCUREMENT	$				
MAILING COSTS-POSTCARD PRINT (5225 pieces @ $.0985)	$				
MAILING COSTS - POSTAGE (5225 pieces @ $.42)	$				
COPYING/PRINTING - Flyers (5000 flyers)	$				
EQUIPMENT PURCHASED- scanner	$				
EQUIPMENT RENTAL - copier for fair	$				
MISC SUPPLIES	$				
Houston Total	$				
Dallas/Fort Worth	1 month	3 months			
Dallas Head Organizer Salary (.25FTE)	$	(b) (4) [redacted]			
Payroll Taxes	$				
Health	$				
Pension	$				
Project Director Salary (1 FTE)	$				
Payroll Taxes	$				
Health	$				
Pension	$				
2 Outreach/Intake (FTE)	$				
Payroll Taxes	$				
Health	$				
Pension	$				
1 PT Outreach Staff ($8/hr@38hrs weekly)	$		(2 months only)		
Payroll Taxes	$				
Pension	$				
RENT ($1100/month @ 50%)	$				
PHONE ($400/month @ 50%)	$				
LIST PROCUREMENT	$				
MAILING COSTS-POSTCARD (3000 pieces @ $. 52)	$				
COPYING/PRINTING - 40,000 Flyers	$				
EQUIPMENT PURCHASE	$				
EQUIPMENT RENTAL	$				
MISC SUPPLIES	$				
Dallas Total	$				

Texas ACORN Expenses by City

EL PASO	1 MONTH	3 MONTHS			
El Paso Head Organizer Salary (.25FTE)	$ [redacted]	[redacted] (b) (4)			
Payroll Taxes	$ [redacted]	[redacted]			
Health	$ [redacted]	[redacted]			
Pension	$ [redacted]	[redacted]			
Project Director Salary (1 FTE)	$ [redacted]	[redacted]			
Payroll Taxes	$ [redacted]	[redacted]			
Health	$ [redacted]	[redacted]			
Pension	$ [redacted]	[redacted]			
1 PT Outreach/Intake Staff ($8/hr@20hrs weekly)	$ [redacted]	[redacted]	(2 months only)		
Payroll Taxes	$ [redacted]	[redacted]			
Pension	$ [redacted]	[redacted]			
RENT ($710/month @ 50%)	$ [redacted]	[redacted]			
UTILITIES ($150 @50%)	$ [redacted]	[redacted]			
PHONE ($250/month @ 50%)	$ [redacted]	[redacted]			
LIST PROCUREMENT	$ [redacted]	[redacted]			
POSTCARD MAILING SERVICE ($.54/piece)	$ [redacted]	[redacted]			
COPYING/PRINTING - 7000 Flyers (donated)	[redacted]	[redacted]			
EQUIPMENT PURCHASE	[redacted]	[redacted]			
EQUIPMENT RENTAL - COPIER (150/MONTH @ 50%)	$ [redacted]	[redacted]			
MISC SUPPLIES	$ [redacted]	[redacted]			
El Paso Total	$ [redacted]	[redacted]			
		[redacted]			
RIO GRANDE VALLEY	1 MON[redacted]	[redacted]			
Project Director Salary (1 FTE)	$ [redacted]	[redacted]			
Payroll Taxes	$ [redacted]	[redacted]			
Health	$ [redacted]	[redacted]			
Pension	$ [redacted]	[redacted]			
Outreach/Intake (1 FTE)	$ [redacted]	[redacted]	1.5 months only		
Payroll Taxes	$ [redacted]	[redacted]			
Health	$ [redacted]	[redacted]			
Pension	$ [redacted]	[redacted]			
OFFICE RENT (in-kind)	$ [redacted]	[redacted]			
PHONE ($224month @ 100%)	$ [redacted]	[redacted]			
LIST PROCUREMENT	$ [redacted]	[redacted]			
POSTCARD MAILING SERVICE ($.54/piece)	$ [redacted]	[redacted]			
COPYING/PRINTING - 8000 Flyers	$ [redacted]	[redacted]			
FAIR RADIO ADVERTISEMENT	$ [redacted]	[redacted]			
TRAVEL - APT RENTAL FOR DIRECTOR (incl utilities	$ [redacted]	[redacted]	had to pay minimum 4 months		
TRAVEL-HOTEL (PRIOR TO APT RENTAL	$ [redacted]	[redacted]			
TRAVEL-CAR RENTAL	$ [redacted]	[redacted]			
TRAVEL-AIRFARE	$ [redacted]	[redacted]			
MISC SUPPLIES	$ [redacted]	[redacted]			
Rio Grande Valley Total	$ [redacted]	[redacted]			

Texas ACORN Expenses by City

SAN ANTONIO	1 MONTH	3 MONTH			
TX Leg Director Salary (.6 FTE)	$ [redacted] (b) (4)	[redacted]			
Payroll Taxes	$ [redacted]	[redacted]			
Health	$ [redacted]	[redacted]			
Pension	$ [redacted]	[redacted]			
2 OUTREACH/INTAKE (FTE)	$ [redacted]	[redacted]	2 months only		
Payroll Taxes	$ [redacted]	[redacted]			
Health	$ [redacted]	[redacted]			
Pension	$ [redacted]	[redacted]			
1 PT Media Outreach/Fair ($12/hr@15hrs weekly)	$ [redacted]	[redacted]	(2 months only)		
Payroll Taxes	$ [redacted]	[redacted]			
Other	$ [redacted]	[redacted]			
RENT ($779/month @ 75%)	$ [redacted]	[redacted]			
PHONE ($300/month @ 75%)	$ [redacted]	[redacted]			
LIST PROCUREMENT	$ [redacted]	[redacted]			
POSTCARD MAILING SERVICE ($.54/piece)	$ [redacted]	[redacted]			
COPYING/PRINTING - 10,000 Flyers	$ [redacted]	[redacted]			
EQUIPMENT PURCHASED- scanner, fax	$ [redacted]	[redacted]			
MISC SUPPLIES	$ [redacted]	[redacted]			
San Antonio Total	[illegible] [redacted]	[redacted]			

Appendix M

ACORN Housing Corporation, Inc.

From: Mike Shea
To: all ACORN Housing employees
Date: September 15, 2009
Re: Ethical standards

ACORN Housing and its employees are required to follow high standards for ethical and legal conduct. Many of the rules you are required to follow have been written down and are recorded in the attached documents. These are excerpts from the National Industry Standards for Homeownership Education and Counseling, our Whistleblower Policy, our Conflicts of Interest Policy, and an excerpt from the HUD Housing Program Handbook.

Please read and make sure you understand and will abide by each rule written in these attachments.

One of the guidelines in the National Industry Standards for Homeownership Education and Counseling says, "Homeownership; educators/ counselors will not participate in, condone, or be associated with dishonesty, fraud, or deception." That provision must be strictly followed. No ACORN Housing employee can suggest to a client or help a client commit any illegal or immoral act – we cannot condone lying about taxes, or falsifying income statements, or any other action that involves deception or breaking the law. There should be no doubt about that. There are no exceptions.

Please remember that we do not in any circumstance accept cash payments from clients. In the first-time home buyer program clients have to pay for credit reports – they will pay by check or money order. Clients in the delinquency program do not have to pay for credit reports.

In delinquency counseling, make sure you are billing at the appropriate level. For example, if you have not done the work necessary to bill at Level 3, you cannot under any circumstances bill at Level 3.

The recent filming of ACORN Housing employees using a hidden camera shows that some basic rules need to be repeated:

1. The only people present during a housing counseling session should be the housing counselor and the client(s). No outsider, such as a real estate agent, should be involved.

2. Only ACORN Housing employees can speak on behalf of ACORN Housing. You should not allow anyone else to say what ACORN Housing's policies are, or what ACORN Housing will do.

3. Counseling sessions should not take place unless and until the potential client has filled out an intake form and authorization.

4. All interactions with clients must be recorded in HCO or other appropriate database.

5. Anyone who needs tax advice should be referred to the IRS or a tax preparation service. We should not give tax advice.

If you have questions about what you should or should not do to comply with these standards, or if you are faced with a situation that makes you uneasy and uncertain about what to do, please contact our general counsel, [redacted], who is acting as our ethics ombudsman. You can reach him at [redacted] [redacted].

Please sign the acknowledgment below showing that you have received and read the attachments. Please return this page with your signature to [redacted] at [redacted].

I have received and read the ethics rules sent with this memo.

_______________________	_______________________
signature	date
_______________________	_______________________
print name	location

Appendix N

ACORN HOUSING CORPORATION, INC.

CONFLICTS OF INTEREST POLICY

PURPOSES

Anyone making decisions on behalf of ACORN Housing Corporation, Inc. ("AHC") should always act based on the best interests of the organization, and no individual associated with AHC should use his or her position for personal benefit, for the benefit of friends or relatives, or to further any outside interests or personal agenda. This standard applies to all transactions and decisions, whether or not covered by the detailed policies and procedures below.

DEFINITIONS

An **interested person** may be a director, officer, member of a committee or staff member of AHC.

A **potential conflict of interest** exists whenever the professional or financial interest of an interested person is opposed to that of the organization, or when such an interest or any conflicting fiduciary duty might influence the interested person's actions and judgment on behalf of AHC. A potential conflict also exists when there is an appearance that an interested person's actions may be influenced by a competing interest or duty.

A **conflict of interest** exists whenever an interested person's competing interest or fiduciary duty is substantial enough that the interested person cannot reasonably be expected to exercise independent judgment and take action in the best interest of the corporation.

Conflicts of interest most frequently arise in (but are in no way limited to) the context of:

- decisions about an interested person's compensation (as a contractor or employee);

- decisions about transactions with entities in which an interested person holds an ownership interest;

- decisions about transactions with an entity by which an interested person is employed.

Conflicts (or the appearance of conflicts) may also arise when the corporation is contemplating a transaction with a close relative or domestic partner of an interested person, or any entity in which such a related person has an ownership interest or which employs such a person.

Conflicts of interest should not be considered to arise when the potential benefit to the interested person is tenuous or remote, such as an interested person with investments in a mutual fund which holds a small amount of stock in a particular company. The fact that an interested person is also a director, officer, member or volunteer of a not-for-profit organization that obtains or seeks funds from institutions or individuals from which AHC also obtains or seeks funds shall not by itself be deemed to be a conflict of interest.

PROCEDURE: BOARD

Whenever a director, officer, or committee member becomes aware of a potential conflict of interest, whether financial or otherwise, s/he shall make the situation known to the board or committee (as the case might be) and provide all facts material to understanding the nature and scope of the conflict, including whether the interested person believes his or her ability to make an independent decision based solely on the best interest of the corporation has been compromised. If the interested person involved does not make this disclosure, another director or committee member with knowledge of the potential conflict should draw it to the body's attention.

The interested person with the potential conflict must retire from the meeting and not participate in final discussion and voting on the existence of the conflict. If a conflict is found to exist, the interested person may be invited to provide any relevant information that could be of use to the board in making its decision, but shall again retire and not participate in the final discussion and voting regarding the transaction. The board or committee's decision shall be based on consideration of whether the transaction:

a) is in the organization's best interest and for its own benefit;

b) is fair and reasonable to the organization; and

c) is the most advantageous transaction or arrangement the organization can obtain with reasonable efforts under the circumstances.

PROCEDURE: STAFF

Whenever a staff member becomes aware of a potential conflict of interest in an area where s/he exercises any discretion in carrying out her/his duties for AHC, s/he shall promptly disclose the potential conflict to an immediate supervisor. The supervisor shall gather pertinent information and report the potential conflict to the Executive Director of AHC, together with a recommendation for action. The Executive Director shall determine whether a conflict exists that requires recusal of the interested person. When a conflict is found to exist, the interested person shall provide the supervisor with all information s/he has relevant to any decision to be made in which s/he has an interest, and the final decision shall be made by the Executive Director based on a recommendation from the supervisor.

If the Executive Director has a potential conflict, s/he shall disclose it to the Board Chair or his or her designee who shall determine the existence of a conflict. At his or her discretion, the Chair may refer the matter to a Committee of the Board or the full Board.

COMPENSATION

In setting compensation of directors, officers, or any individual who may exercise substantial influence over the organization, the board shall ensure that no individual who receives a substantial portion of his or her income directly or indirectly from AHC participates in such decisions. The basis of the compensation decision shall be documented and based on a determination that the amount paid is no more than reasonable in view of services rendered.

ANNUAL DISTRIBUTION, ACKNOWLEDGMENT AND DISCLOSURE

This conflict of interest policy shall be distributed annually to all directors, officers, members of board committees, and staff. All covered individuals shall sign an annual acknowledgment that they have received a copy of this policy, understand it, and agree to abide by its terms.

In addition, officers, directors, and key employees shall annually disclose personal financial and other interests that in their reasonable judgment may create potential conflicts of interest, if any exist. This shall be in addition to the obligation to disclose known actual or potential conflicts at such later time as the officer, director, or employee may become aware of them.

Appendix O

ACORN HOUSING CORPORATION, INC.

WHISTLEBLOWER POLICY

It is the policy of ACORN Housing Corporation, Inc. ("AHC") to abide by all applicable federal, state, and local laws, rules, and regulations. Violations of legal provisions and ethical standards can taint the credibility of the entire organization and cause the organization and its employees to be subjected to adverse publicity and distrust by the public, our allies, and the government. We take seriously our obligation to prevent these kinds of violations.

Any employees of, agents of, or contractors with, the organization are encouraged to seek clarification and guidance and to report possible violations of laws, regulations, or ethical obligations to their supervisors. Where referral to the employee's supervisor is inappropriate, the employee should seek the help of the supervisor's supervisor. Additionally, the organization has appointed an audit committee, any member of which may be contacted concerning any questionable ethical practice, or any possible violations of law, regulations, or standards. In most cases, the suspected violation should be made in writing and signed by the person making the report, with the specific information that the person knows, so that an investigation may be undertaken. All questions and reports will be treated as confidential, except as required for enforcements of these standards or as otherwise required by law, and can be made anonymously. No employee will be subject to any adverse action for a report made in good faith, even if ultimately found to be unfounded. Anyone found to have taken any such action against an employee making such a report will be subject to appropriate disciplinary measures, which may include termination of employment.

The preceding statement shall be included in AHC's employee handbook, with a list of contact information for all members of AHC's audit committee.

Appendix P

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Internal Audit Comments to the AHCOA Management Response on the Special Audit on the Use of NFMC Program Grant Funds by ACORN Housing Corporation, Inc.

The congressional letter requested that the Office of Internal Audit investigate primarily ACORN Housing Corporation Inc.'s (AHC) use of National Foreclosure Mitigation Counseling (NFMC) Program funds and whether the NFMC funds were used in accordance with the legislation and program requirements. Internal Audit has also incorporated recommendations to the scope to help address, in the future, any identified weaknesses.

Internal Audit provided a "draft" copy of the report to the Chairman of the Senate Committee on Banking Housing and Urban Affairs and NeighborWorks America's Board of Directors, Officers and NFMC Senior Management team on April 26, 2010. We also provided draft copies to the United States Government Accountability Office (GAO) on July 23, 2010, based on a written request received from them, and to Affordable Housing Centers of America (AHCOA), formerly AHC, on July 26, 2010, from which an official response has been received.

The draft report identified and reported numerous observations across various dimensions of AHC's activities, in accordance with the project scope of the Special Audit Report. In the draft report, Internal Audit also took into consideration initial feedback received from AHC senior management both during and shortly after our Exit Conference, which was held on February 5, 2010. Since issuance of the draft, AHCOA provided Internal Audit with a response to the Special Audit report indicating that *"AHCOA welcomes and accepts the audit report's recommendations and will implement them."* The Final report has been augmented with a summarization of AHCOA's response and Internal Audit's Comments to AHCOA's response on the Special Audit report. All the summarized versions of the AHCOA response have been *italicized* for easy identification in this section.

Although AHCOA welcomes and accepts all audit recommendations made and agrees to implement them, it does not concur with a number of the observations noted in the Special Audit report. After having reviewed AHCOA's responses, we disagree with AHCOA's expressed viewpoints and assertions as they relate to these observations. Consequently, our observations and recommendations remain as originally written in the entire report. This report is now considered "Final."

We appreciate that AHCOA accepted all of the recommendations written in the Special Audit report. We understand that AHCOA has initiated efforts to implement all recommendations in order to bring its operations into compliance with NFMC program and federal requirements; AHCOA's response states that a majority of the recommendations have already been placed into operation and that there are plans to implement the others in the near future. Internal Audit has recommended that NeighborWorks America management obtain assurance that the implementation of all recommendations adopted, as indicated by AHCOA, has been completed and that AHCOA's NFMC-funded activities are in conformance with all program and applicable requirements.

Below are the comments by the NeighborWorks America Office of Internal Audit, to AHCOA's response to the NeighborWorks Special Audit report. These comments are itemized by the Special Audit recommendation number.

1. Late Submission of Audited Financial Statements and A-133 Report

The Special Audit report states that as of January 31, 2010, AHC was 13 and 10 months late by the NFMC Program and OMB Circular A-133 requirements, respectively, in the submission of audited financial statements for fiscal year 2008. It was also late by the NFMC requirement in the submission of its audited financial statements for fiscal year 2009.

AHCOA Summarized Response:

AHCOA indicated that the major reason for AHC's FY 2008 audit delay were attributable to difficulties encountered in transitioning its accounting functions from an outsourced provider (out of state) to an in-house accounting unit; and the conduct of extended compliance reviews by its external auditor as a result of media attention and subsequent reactions to a highly publicized event in the fall of 2009 which also delayed the FY 2009 audit. It also noted that it has taken steps to ensure that the FY 2010 audit is completed on time, and the Board and management of AHCOA have discussed the importance of timely audits.

AHCOA did not dispute this observation[1] and included documentation and submission of all required financial reports, as recommended by Internal Audit. There are no further comments from Internal Audit on this item.

2. *No Federal Audit Clearinghouse Submission of Reporting Package As Required*

The Special Audit report states that as of January 31, 2010, AHC had not submitted a reporting package to the Federal Audit Clearinghouse (FAC) for fiscal years 2008 and 2009.

[1] Internal Audit received from AHC its audited financial statements for the fiscal years 2008 and 2009 on February 1, 2010 and March 31, 2010, respectively.

AHCOA provided the same response for this observation as summarized in item #1. AHCOA did not dispute this observation[2] and indicated that it adopted and implemented all related recommendations. AHCOA has provided evidence of submission for both fiscal years 2008 and 2009. There are no further comments from Internal Audit on this item.

3. *Term Limit for Independent Auditors*

The Special Audit report noted, as an additional recommendation for the consideration of AHC that it conduct a bidding process to consider other audit firms for the current fiscal year and subsequent five year term. This was recommended as an industry best practice and not mandatory, having observed that the independent audit firm at the time had been engaged by AHC since July 2003.

<u>*AHCOA Summarized Response:*</u>

AHCOA indicated that a bidding process for new external auditors was conducted in preparation for the next independent audit for the fiscal year ending June 30, 2010. AHCOA reached out to 28 auditors to submit a Request for Proposal; five firms requested full packets of information and two of those firms submitted responsive proposals. Their response indicated that the firm with relevant A-133 audit requirements experience, availability of staff with appropriate technical and professional experience, and lower cost of services was selected.

AHCOA did not dispute this observation. Internal Audit recommends that NFMC management confirm the selected external auditors and obtain a copy of the engagement letter with the selected audit firm.

4. *Hiring an In-House Chief Financial Officer*

The Special Audit report notes that AHC's Interim CFO function was being performed by staff of an external accounting firm.

<u>*AHCOA's Summarized Response*</u>

AHCOA noted its plan to continue its search for an in-house CFO and indicated that the search has been made more difficult by the suspension of grant funding, which concerns qualified candidates considering a job switch. AHCOA will continue to retain the services of [redacted] *for outsourced interim CFO staffing until the new CFO is hired and*

[2] Internal Audit received a copy of the Federal Audit Clearinghouse email confirmation, dated February 4, 2010.

trained. It also noted the (b) (4) [redacted] *consultant has committed to train and support the new CFO for as long as it takes for successful transfer and retention of the financial management knowledge of the AHCOA programs and grants that has been gained. Although AHCOA agreed with the observation and related recommendation, it indicated that it disagrees that there is inherent risk in relying on an external accounting firm to serve as interim CFO and also suggested that this risk rating should be rated "low" instead of "moderate."*

Based on our review of AHCOA's response, our observation remains the same. Our concerns of inherent risk stem from the possibility of having what starts out as an interim situation potentially becoming a permanent feature. AHC has contracted (b) (4) [redacted] as an interim CFO since July 2008; the deployment of a permanent CFO would assure the retention of institutional knowledge, and further enhanced autonomy of the financial management function. Our observation did not intend to question the capacity or expertise of (b) (4) [redacted], which, as noted in AHCOA's response, is a well-recognized audit firm.

Internal Audit recommends that NFMC management obtain a plan with milestones from AHCOA on the status of hiring a permanent CFO.

5. *Completeness and Documentation of Client File Requirements in Homeowner Files;*

5a. Frequency of Exceptions per Homeowner Case File

Internal Audit's response covers both items 5 and 5(a) of the Special Audit Report. The Special Audit report observed on Page 6 that material exceptions, due to homeowner client file incompleteness, were identified in a significant share (estimated at 44%) of the 350 sample client files examined[3]. As also stated on Page 6, "Client file documentation completeness is required for NFMC billing to take place. For audit purposes, we considered the lack of clearly stated documentation or absence of documentation as an exception."

<u>*AHCOA's Summarized Response:*</u>

AHCOA in its response agreed with all the recommendations put forward by the Special Audit Report. AHCOA also indicated that it had already taken steps to implementing all recommendations by instituting new protocols and putting in place new management and quality controls, including the appointment of a new training manager.

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[3] The sample files were drawn from both NFMC Rounds 1 and 2.

AHCOA also expressed its intent to adopt new counseling protocols, enhanced processes supporting its client file documentation, and management and quality controls to ensure conformance with NFMC Program requirements. It also provided the Delinquency Counseling Protocol, which provides guidance to AHCOA counselors on: contacting clients, case review for new and reassigned clients, follow-up guidelines for counselors, and non-retention options, for which all AHCOA counselors are expected to follow in all counseling cases.

AHCOA, however, indicated that it did not agree with the Special Audit reports observation of material client file incompleteness. AHCOA also stated that the management of NeighborWorks provided AHCOA with the opportunity to supply missing documents from a set of files previously reviewed under the Special Audit and concluded that the material exceptions on incompleteness were overstated.

Internal Audit is aware that information was transmitted by NeighborWorks America management to AHCOA in connection with a **separate** review that was performed by NFMC management. This transmission, however, occurred **subsequent** to the issuance of the draft report of the Special Audit dated April 23, 2010. NFMC management conducted a review of NFMC client files for its own purposes and whatever results or conclusions were arrived at by NFMC management do not affect any of the observations or recommendations noted in the Special Audit report, which was prepared independently by Internal Audit.

Internal Audit examined AHCOA's response, made available through NeighborWorks America management, and did not see any information in the response that would justifiably modify our initial observations. Consequently, the initial observations in the draft Special Audit Report, dated April 23, 2010, still stands.

Internal Audit recommends that NeighborWorks America management confirm that sound quality control methods and techniques have been implemented by AHCOA to ensure the completeness of case files at the time they are reported and billed. NeighborWorks America management should obtain confirmation and evidence on: (a) methods ensuring that data captured in the HELP case management system of AHCOA are reliable and supported by case file documentation; (b) enhanced validation of timestamp and case status data stored in HELP; (c) that all relevant staff are trained on the NFMC Program documentation requirements for the billing of cases.

6. ***Timing for Uploading Clients for Billing to the Data Collection System***

The Special Audit report observed that there were some exceptions identified during test work where AHC uploaded clients into the Data Collection System (DCS) early in the process cycle and prior to the completion of all NFMC program requirements.

AHCOA did not categorically dispute this observation; however, it makes a clarification regarding the topic of Contact with Servicers.

AHCOA's Summarized Response:

According to AHCOA, the Special Audit report states on Page 60 that "contact with the servicer was required before a case could be billed at level 2." AHCOA's response also indicated that all recommendations have been implemented and that there were now enhanced reviews, sign-offs required by negotiators and managers prior to billing, verification of documentation and additional computer system checks prior to date-stamping and billing.

Internal Audit did not find such a statement on Page 60, nor were we able to locate it anywhere in the document. Appendix G in the Special Audit Report illustrates the NFMC funding announcement criteria with which our test work was conducted.

In addition, Internal Audit also recognizes that contact with the servicer is only one of the many possible steps that can be pursued before billing at Level 2/3 and that it may not be possible in every case. The exceptions we noted took this into consideration and our observation remains the same. Internal Audit recommends that NFMC management confirm and obtain evidence that these quality improvements and process and system enhancements have been implemented by AHCOA. Recommendations made in item # 5 and 5(a) also apply to Item #6.

7. ***AHC's Inability to Locate Some Requested Files***

The Special Audit report observed that there were three files requested, from our sample, which were unable to be located by AHC.

AHCOA's Summarized Response:

AHCOA indicated that the three files were eventually located in the Springfield, Massachusetts office which had been closed recently. Under the new protocol and *procedures instituted by AHCOA, physical files have been replaced with electronic records which would greatly minimize the incidence of lost records.*

AHCOA did not dispute this observation and indicates that it has adopted and implemented all related recommendations on this observation. Internal Audit takes note that all three files have been located as indicated by AHCOA. Internal Audit has no further comments on this item.

8. *Training Hours, Minimum Requirements and Other Training Practices*

The Special Audit report observed that there was no provision in AHC's Training Manual on the minimum requirements for continuing education after basic requirements had been met. We were also unable to determine if: (1) individual home counselor minimum requirements had been met annually, and (2) how many hours were attributable to each of the training sessions. We also noted the vacant position of a Training Director since July 2009.

AHCOA'S Summarized Response:

Accordingly, in its response, AHCOA: (1) has committed to updating its training manual annually, and will include minimum requirements for the annual number of home counselor training and continuing education hours, (2) compiled an AHCOA training database which details all training and educational courses completed by each employee, and (3) agreed with the recommendation to expedite the hiring of a new Training Director and will follow it.

AHCOA did not dispute these observations. Internal Audit recommends that NFMC management confirm the following: (1) that the AHCOA training manual has been updated since the Special Audit review, as recommended; (2) AHCOA has completed the requirements for fully adopting the National Industry Standards for Homeownership Education and Counseling; and (3) obtain the status or plan on the hiring of a new Training Director.

9. *Arms Length Transactions/Organizational Conflicts of Interest*

The Special Audit report (Pages 10 and 72) states that:

(i) The awards of AHC-executed contracts with ACORN, totaling $ 6.1 million, violated the intent of the OMB A-110 "organizational conflict of interest" and "revision of budget and program plans" requirements;

(ii) The contractual awards are highly material in that significant shares (44% and 17% for Rounds 1 and 2, respectively) of total funding were outsourced to ACORN;

(iii) The contract awards to ACORN represent major overruns against both (a) planned amounts for outreach represented in AHC's applications for NFMC funding and (b) AHC's formal representations to NeighborWorks America shortly before issuance of these contracts;

(iv) Significant relationships were evidenced between AHC and ACORN, calling into question whether these were valid arms-length transactions. The Round 1 contract was non-competitive (sole source) and the Round 2 contract was awarded after AHC received just one bid.

AHCOA's response has made numerous claims to dispute these observations; however, after careful consideration (including reviews of recent opinions issued by other government organizations), our observations remain the same:

(a) AHCOA Response to issues in (i) and (iv), above:
"At the time, in March 2008, NeighborWorks approved AHC's decision to hire ACORN as a vendor, and put that approval in writing. A copy of the letter, giving that approval, is provided in Appendix F (of AHC's supporting binder)." [4]

Internal Audit Comment:
The letter from NeighborWorks America to which AHCOA refers does not provide an approval but an acknowledgement that AHC had chosen to select ACORN as a vendor[5], as opposed to being a sub-grantee, with the term "vendor" being used as in the definition provided by OMB Circular A-133 and HUD regulations. Responsibility for evaluating and selecting AHC's vendors (and in accordance with federal regulations) rests entirely with AHC.

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[4] Excerpt from the ACHOA management response dated August 24, 2010.

[5] It may also be noted that, in its presentation of information to NeighborWorks America that preceded this letter, AHC's attorneys assured NeighborWorks America that the maximum contractual amount to be awarded to ACORN (during Round 1) would be only 20% of the total grant, much smaller than the 44% executed just two weeks later.

(b) AHCOA Response to (iv), above:

"The schedule called for housing counseling to begin in March – everything proceeded on an expedited basis because of the severity of the foreclosure crisis... AHC had little time to find and contract... AHC consulted with outside counsel, experienced with federal contracting requirements, who advised AHC that under the circumstances it was appropriate for AHC to proceed with a sole source contract."[6]

Internal Audit Comment:

We have reviewed AHCOA's response. Internal Audit does not dispute the use of sole source contracting in certain and appropriate circumstances that are justifiable and satisfy federal requirements. However, the observation stands and will remain unmodified. Please see items (c) and (d) below.

(c) AHCOA Response to issues in (i) and (iv), above:

"These were not contracts between affiliated parties. Despite the similarity in names, AHC and ACORN were separate, distinct organizations... It was not owned or controlled by ACORN and it was not a division or branch of ACORN... It had its own independent Board of Directors... Likewise, the management of AHC was separate from the management of ACORN... AHC's employees were separate from ACORN's employees... AHC's headquarters were in Chicago; ACORN had no office in Chicago... AHC's finances were separate from ACORN's..."[7]

Internal Audit Comment:

These arguments have been previously provided by AHC management and have been accounted for and addressed in the Special Audit Report (see pp. 70-71). The observation stands and will remain unmodified.

(d) AHCOA Response to issues in (ii) and (iii), above:

i. **AHCOA Response:**

"Amount of funds paid for outreach work ... The observations list contracts with ACORN and ACORN branches and the 'Contract Amount' for each contract... The 'contract amount,' however, is not the amount that was paid... Rather, the 'contract amount' was the maximum contractual limit... The actual amounts that were paid to ACORN and ACORN branches... these amounts are far less than

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[6] Excerpt from the ACHOA management response dated August 24, 2010.

[7] Excerpt from the ACHOA management response dated August 24, 2010.

AHC budgeted for outreach."[8]

Internal Audit Comment:
Based on our review and consideration of AHCOA's response, our observation remains the same. The contract terms (even if described as "maximum contractual limits") reflect AHC's commitment, willingness and intention to pay ACORN the dollar amounts reflected. As already stated, these amounts significantly exceeded both planned amounts for outreach represented in AHC's applications for NFMC funding and AHC's formal representations to NeighborWorks America shortly before issuance of these contracts; they also created potential exposure to the NFMC program to cover the difference if it were not paid by AHC. The observation stands and will remain unmodified.

ii. AHCOA Response:
"In Topic 9, on page 10 of the Executive Summary, the document says, 'significant shares (44% and 17% for Rounds 1 and 2, respectively) of total funding from NeighborWorks America were outsourced to ACORN. But that is not correct... Thus, AHC actually paid 14.2% and 4.4% of its grant awards for outreach work by ACORN."

Internal Audit Comment:
Budget overruns are defined as expenditures plus commitments that exceed the defined budgets. Therefore, the issuance of these outsourced contracts created commitments that, on their own, were sufficient to constitute significant overruns of AHC's budgetary authority under the program. The observation stands and will remain unmodified.

iii. AHCOA Response:
"The Executive Summary also says that the amounts paid for outreach were major overruns against the amounts planned in AHC's applications to NeighborWorks before the issuance of the contracts. But again, that is unfortunately incorrect... It spent the far lower figures... which were not overruns with respect to either the amounts listed in AHC's funding application or its representations to NeighborWorks."[9]

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[8] Excerpt from the ACHOA management response dated August 24, 2010.

[9] Excerpts from the ACHOA management response dated August 24, 2010.

Internal Audit Comment:
To be accurate, the Special Audit report made no reference to "amounts paid for outreach" (see page 10 of the Special Audit report), partly because the FY'08 and FY'09 audited financial statements were unavailable during the time of our fieldwork. As a result, we were unable to fully rely on AHC's unaudited financial reports of actual amounts paid. Please see our section on Scope Limitations on Page 29 of the Special Audit Report. Our observation stands and will remain unmodified.

9a. ***Transparency of Vendor Contracts Executed with ACORN Local State Chapters***

The Special Audit report states that from a transparency standpoint, the issuance of multiple contracts to ACORN under different names gives the appearance (or leads an outsider to believe) that contracts have been distributed among separate entities when they are actually one and the same, sharing the same federal tax identification number and receiving payments routed in the same manner. We observed that the four ACORN local state chapters, noted above, had individual executed contracts, totaling $2.5M with AHC, which contributed to the $6.1 million in executed vendor contracts for client referrals (Page 11).

AHCOA Response:
"In the course of their discussion, the auditors imply that there was something wrong with AHC contracting with state chapters of ACORN, in 2008, instead of running contracts through the national ACORN organization. Contracts were entered into with the state ACORN chapters as an experiment, to see which method would be most efficient, in terms of both quality and quantity of services."[10]

Internal Audit Comment:
AHC entered into five (5) contracts with ACORN for client referrals. When AHC made representation to NeighborWorks America of its intent to use ACORN as a vendor for homeowner referrals, there was no specific mention that separate contracts with local state chapters would be entered into. Per our discussions with NeighborWorks management, NeighborWorks was unaware that AHC had entered into additional separately identifiable contracts with ACORN. Nor was NeighborWorks America management aware of the total dollar amount of these vendor contracts, at $3.5 million (44% of the NFMC award in Round 1). See Special Audit Report, pp. 72-73. Therefore, based on our review and consideration of AHCOA's response, our observation remains the same.

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[10] Excerpts from the ACHOA management response dated August 24, 2010.

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Internal Audit recommends that NeighborWorks America management obtain full assurance from AHCOA that no further non-competitive contracts with organizations that are considered to be related parties are entered, and that AHCOA fully conforms to the procurement provisions of OMB Circular A-110. Furthermore, NeighborWorks management should also obtain from AHCOA a full disclosure of all material vendor contractual relationships related to NFMC by providing a break-down analysis of the contractual amount and vendor name.

10. *Rationale for Contract Cost Not Provided in Procurement Files*

The Special Audit report states that Internal Audit was unable to identify any evidence of price analysis in the contract files for the homeowner referral for counseling service fees for services provided by ACORN during Rounds 1 and 2, as stipulated in paragraphs 45-46 of OMB Circular A-110. AHCOA did not dispute this observation but sought to make the following clarification:

<u>*AHCOA's Summarized Response:*</u>

"In contracting with ACORN and ACORN Chapters, AHC gathered information, to the extent it was available, on market prices for comparable services. NeighborWorks does not dispute that AHC gathered pricing information, but it faults AHC for not having that information in its files."

It should be noted that Internal Audit had not made any comment as to whether it did or did not dispute that AHC had actually gathered pricing information. What is clear is that there was no evidence available which indicated if the pricing analysis had been carried out, as required by paragraphs 45-46 of OMB Circular A-110.

According to AHCOA's response, this recommendation will be implemented. Internal Audit recommends that NFMC management confirm and provide documented evidence of a pricing rationale in AHCOA's procurement files in accordance with OMB Circular A-110.

11. *Lack of Delegation of Authority/Segregation of Duties for Client Referral Fees*

The Special Audit report (Page 11) states that it was observed that the purchase order for $[redacted] for ACORN's Round 2 homeowner referrals for counseling services was not dated or approved by an authorized officer or management of AHC. Instead, it was authorized by the Procurement Manager. Moreover, we found no evidence of the Procurement Manager being delegated that level of authority.

In its response, AHCOA indicated that it already has a formal, detailed purchasing policy and will amend it to establish clear limits of authority. In addition, AHCOA will request its Board of Directors to approve a resolution that all contractual amounts exceeding $25,000 will require approval by the Board of Directors. The AHCOA response also claims that AHC's Executive Director also approved the contract with ACORN for $[redacted], *after reviewing it with the President of the Board of Directors.* AHCOA did not dispute this observation. In our review of their response, there was no written documentation to support the explanations provided by AHC management; therefore, our observation remains the same. According to its response, this recommendation has been implemented. Internal Audit recommends that NFMC management confirm that AHCOA has updated its procurement policy to address the recommendations in the Special Audit report and test a sample of any recent client referral fee contracts and purchase orders to determine that the procurement policy has actually been implemented in practice. AHCOA management should also provide a copy of their Board resolution which attests to the threshold contractual amount requiring Board approval.

12. *Inaccurate Vendor Names Reflected in General Ledger for Referral Fees*

The Special Audit report (Page 12) states the observation that incorrect vendor names were reflected in AHC's general ledger for payment transactions in our sample, related to referral fees to "ACORN Partnerships" and "Texas Acorn Housing Corp." AHC identified them as merely inaccurate recordings of the vendor names in the financial system. However, such errors can potentially undermine the transparency of the payment history.

AHCOA Summarized Response:

According to its response, AHCOA has instituted procedures to ensure that vendor names in the General Ledger only reflect vendor names identified in vendor contracts and this recommendation has been implemented.

AHCOA did not dispute this observation. Internal Audit recommends that that NFMC management confirm and obtain evidence that that AHCOA has reflected the appropriate vendor names in its General Ledger.

13. Controls Over Manual Checks

The Special Audit report (Page 12) states that there were a number of instances of handwritten checks issued for significant payments, even though AHC had implemented an accounting application that has the capability of producing system generated checks.

AHCOA Summarized Response:

According to its response, these recommendations have already been implemented. AHCOA noted the establishment of a "Manual Check Log Form" and revised its policies and procedures to address the processing and posting of manual checks. AHCOA also provided an example of the check log form, policies and procedures.

AHCOA did not dispute this observation. Internal Audit recommends that NFMC management follow up to confirm that a manual check log exists in practice and that the updated policies and procedures have been implemented for any manual checks that were actually issued to date.

14. *Lack of Dual Signatures on Payments Exceeding $10,000*

The Special Audit report (Page 12) states that AHC's Accounts Payable procedures require two signatures for payments exceeding $10,000. This policy was not followed on multiple occasions. As a related issue, it was observed that the initiation and approval of payments were made by the Executive Director. There was little evidence of intervening management levels in the initiation and approval of the payment process that would provide the assurance of adequate segregation of duties.

AHCOA Summarized Response:

According to its response, AHCOA has established a new management level Director of Operations who oversees budgets and reviews and approves payment vouchers, supported by vendor invoices. In addition, AHCOA noted that designated authorized signers were added to its bank accounts and a once per week payment cycle was implemented to facilitate the availability of signers when dual signatures are required.

AHCOA did not dispute this observation. Internal Audit recommends that NFMC management confirm that a proper dual signature process is underway by selecting a sample of payments exceeding $10,000 for testing as evidence.

Other Comments in AHCOA's Response

AHCOA included an additional comment in its letter, as related to the rationale for the inclusion of third party review reports on AHC by Internal Audit in the Special Audit report.

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Internal Audit Comments:
The congressional letter received by Internal Audit also directed that the investigation provide information on how AHC has performed under the NFMC program and an evaluation as to whether it had met its obligations. It was against the background of this direction that Internal Audit sought to document the reports of other third party evaluators as part of the information gathered during the course of the review.

Conclusion

The Internal Audit comments to AHCOA's management responses bring to a close further action on the Special Audit Report by Internal Audit. As earlier indicated, Internal Audit is pleased to note that AHCOA has undertaken to implement all recommendations made in the Special Audit Report. NFMC management, as Grant Administrator of the NFMC Program, will obtain assurance on the full implementation and compliance with each of the Internal Audit recommendations. NFMC management, in addition to this obligation, may use its discretion to require or take additional actions that might be deemed necessary to bring AHCOA in compliance with NFMC program and other federal requirements.