

Internal Audit Department
NeighborWorks® America

Audit Review of

Neighborhood LIFT Program

Project Number: NW.NI.LIFT.2020

Audit Review of Neighborhood LIFT Program

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September 3, 2020

To: NeighborWorks America Audit Committee

Subject: **Audit Review of Neighborhood LIFT Programs**

Attached is our draft audit report for the Neighborhood LIFT Program review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: M. Rodriguez
S. Ifill
R. Bond
R. Simmons

**Function Responsibility and Internal Control Assessment
Audit Review of Neighborhood LIFT Program**

Business Function Responsibility	Report Date	Period Covered
National Initiatives	September 3, 2020	As of February, 2020
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations	Generally Effective¹	
Reliability of Financial Reporting	Generally Effective	
Compliance with Applicable Laws and Regulations	Not Applicable	

This report was reissued February 15, 2024 in accordance with a recommendation by the Government Accountability Office (GAO-23-105944, June 14, 2023).

¹ **Legend for Assessment of Internal Control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

Executive Summary of Observations, Recommendations and Management Responses

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>Observation 1- Failure to Produce Record of a Business Continuity Plan from NWO</p> <p>During the 2014 audit review, Internal Audit (IA) observed that references to the Business Continuity Plan (BCP) were omitted from the agreement between NeighborWorks America and the Network Organizations (NWOs). Per Management's response to the observation the grant agreements were to include specifications that included "Each organization must provide evidence of a Business Continuity Plan". During this current audit, IA requested Business Continuity Plans for the sample NWO participating in the LIFT programs.</p>	<p>Yes</p>	<p>Recommendation 1 – Obtain BCP for Participating NWOs</p> <p>Internal Audit recommends management obtain and review BCPs for NWOs that participate in the LIFT program to ensure NWOs can reasonably respond to events that could impact their operations.</p>	<p>No</p>	<p>The Management Response accepted in the 2014 audit indicated that the requirement that the NWO provide evidence of a Business Continuity Plan.</p> <p>Going forward, the program team members will formally document compliance with the request to seek evidence of a Business Continuity Plan, however program will not review the BCP as evaluating the BCP is beyond the scope and funder requirements.</p>	<p>Future sites in 2021. No contract in place at this time. Dates are TBD</p>	<p>Internal Audit recommended the extra step of reviewing BCP's to ensure they were adequate. However, this was a recommendation and not a requirement. Therefore, we accept management's response to formally request and document BCP's without further evaluation. The corrective action meets the spirit of the recommendati</p>

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>Internal Audit was unable to obtain evidence of a BCP for the current sample of NWOs and it appears that NeighborWorks America is using their BCP to satisfy the NWO agreements.</p> <p>Risk Rating: (b) (5)</p>						<p>on to ensure that NWO's at a minimum have a BCP in place.</p>
<p>Observation 2 – Prior Audit Review Lack of Recaptured Funds Log</p> <p>During the 2014 audit review, Internal Audit (IA) observed a discrepancy in the recaptured (repaid) funds. Although there were no specific reporting requirements for recaptured funds, IA recommended the development and implementation of management level reports to track recaptured funds and their data points.</p> <p>Per management's response to the 2014 observation a log</p>	<p>Yes</p>	<p>Recommendation 2 – Formal Tracking of Recaptured Funds</p> <p>Internal Audit recommends that management develop and implement formalized management level reports to document recapture (repaid) loan information, which should include the date of recapture, the corresponding LIFT program, the amount recaptured, the amount available for borrower assistance grants, and the amount used for</p>	<p>Yes</p>	<p>Program team maintains a log of the requested information. Management is informed of recaptured funds as they occur, and they are entered into this log.</p> <p>Incidence of recaptured funds are reviewed at Quarterly Budget Meetings with Management.</p> <p>There are currently 3 incidences of recaptured funds in 7 years.</p>	<p>Already implemented</p>	<p>Internal Audit accepts management's response.</p>

Summarized Observation Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation Summary	Accept IA Recommendation (Yes/ No)	Management's Response to IA Recommendation	Estimated Date of Implementation (Month/Year)	Internal Audit Comments on Management Response
<p>was going to be maintained to document this information.</p> <p>For the current audit, Internal Audit was unable to obtain evidence of a log or other formal reporting that captured the data points previously described. Failure to formally document recaptured loans does not provide adequate tracking to support how recaptured funds are eventually treated. In addition, given that NeighborWorks America has previously encountered issues with appropriated recaptured funds, formal tracking of all recaptured funds should be adopted.</p> <p>Risk Rating: (b) (5)</p>		<p>borrower assistance grants.</p>				

Risk Rating Legend

Risk Rating: High

A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation's reputation.

Risk Rating: Moderate

A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

Risk Rating: Low

A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

Management Responses to The Audit Review of: Neighborhood LIFT Programs		
# Of Responses	Response	Recommendation #
1	Agreement with the recommendation(s)	2
1	Disagreement with the recommendation(s)	1

Background

In February 2012, NeighborWorks America entered into a grant agreement with Wells Fargo Foundation to aid Wells Fargo with advancing recovery efforts in cities most impacted by housing crisis via the Neighborhood LIFT program. Neighborhood LIFT is a program that offers certain down payment assistance products designed to encourage home ownership. The initial Neighborhood LIFT program resulted in a launch of down payment assistance programs in eleven (11) geographic markets identified by Wells Fargo.

Subsequent Neighborhood LIFT programs were conducted under additional grant agreements. Under each of the grant agreements, Wells Fargo provided the down payment assistance funds and NeighborWorks administered the funds in accordance with the grant agreement. Under the grant agreements, NeighborWorks entered a Memorandum of Understandings (MOUs) with local NeighborWorks Network Organizations (NOW) within each respective market and the respective NWO was responsible for issuing the borrower assistance grants in accordance with the Down Payment Program Requirements and Parameters. As of LIFT 3.0, NeighborWorks America began entering into grant agreements with the local Network Organization. MOUs are now used when the local NWO bring in a third-party organization to assist in with the LIFT program. See Appendix A for DPA funds provided for the period 2016 to 2020.

An audit of the LIFT program was conducted in FY 2014. Since the 2014 audit, the Neighborhood LIFT program expanded and NeighborWorks entered into additional grant agreements with Wells Fargo, each adding additional geographic markets.

Objective

The objective of this review was to obtain reasonable assurance:

- That NeighborWorks is satisfying the terms/obligations of the grant agreement.
- That grant allocations and disbursements are conducted in compliance with contractual or grantor terms
- To obtain assurance that adequate controls are in place to ensure program requirements are being met and risk is mitigated.

Scope

The audit scope included Neighborhood LIFT programs with active sites as of February 2020 and that were not included in the 2014 audit review.

In October 2016, NeighborWorks transitioned from PeopleSoft to NetSuite. At the time of the audit review the Finance department was taking step to obtain access to transactions from PeopleSoft related to the LIFT 3.0 Program. However due to timing, transactions from the LIFT 3.0 program were excluded from the scope of this review.

Methodology

Internal Audit met with National Initiatives to obtain an understanding of the Neighborhood LIFT Program, the history of the program, and its processes. Prior observations and recommendations contained in the FY 2014 audit report were reviewed. In addition, Internal Audit obtained and reviewed policies, guidelines, documents detailing the program history, and a variety of sample reports.

Internal Audit began its review by identifying Neighborhood LIFT programs that had active sites as of February 2020. Active sites were analyzed and judgmentally selected to be included in the sample taking into consideration a predetermined list of risk factors. Once the sample sites were selected the corresponding grant agreements, budgets, reports and other supporting documentation was obtained and reviewed. For the samples selected, this included both the fully executed master grant agreement for the LIFT program between NeighborWorks and Wells Fargo and the grant agreements between NeighborWorks and the NWOs.

Internal audit also reviewed the General Ledger (GL), budgets, and other corresponding supporting documentation related to the grant funds that were obtained for the LIFT Programs within scope and their subsequent disbursement to the NWOs. Neighborhood LIFT programs project codes were obtained for Neighborhood LIFT 4.0 through 6.0. Related transactions were reviewed to ensure compliance with requirements under the Financial Support section of the fully executed master program agreements including initial recording of incoming funds and sampling of outgoing payments based on selected location sampling, reserve requirements, and recaptured/repaid funds. Payments were only reviewed from a GL perspective and were otherwise excluded from this review. A more comprehensive review of payments will be completed in the upcoming Account Payable/ACH Transactions review scheduled for FY2020.

Below are the observations and recommendations that resulted from the testing performed.

Observations and Recommendations

Observation 1- Failure to Produce Record of a Business Continuity Plan from NWO

During the 2014 audit review, Internal Audit (IA) observed that references to the Business Continuity Plan (BCP) were omitted from the agreement between NeighborWorks America and the Network Organizations (NWOs). Per Management's response to the observation the grant agreements were to include specifications that included "Each organization must provide evidence of a Business Continuity Plan". During this current audit, IA requested Business Continuity Plans for the sample NWO participating in the LIFT programs. IA was provided the following statement in response to our request:

"NeighborWorks America's Business Continuity Management Plan satisfies the Business Continuity Plan (BCP) required by the LIFT 3.0 Master Agreement and consequent LIFT Master Agreements 4.0 – 6.0. NeighborWorks Business Continuity Management Plan incorporates National Initiatives' divisional BCP within it. In the current Business Continuity Management Plan, you will find National Initiatives BCP beginning on page 228."

Therefore, Internal Audit was unable to obtain evidence of a BCP for the current sample of NWOs and it appears that NeighborWorks America is using their BCP to satisfy the NWO agreements.

NWOs should provide evidence of their BCP so that NeighborWorks America has documentation of the NWOs prevention process and recovery system, such that NeighborWorks and the NWO are better prepared to work together if a potential threat was to occur. NeighborWorks America is not responsible for establishing the process, recovery task, or timelines associated with an NWOs BCP. Lastly, it is not sufficient for NeighborWorks BCP to be substituted for an NWOs BCP.

Recommendation 1 – Obtain BCP for Participating NWOs

Internal Audit recommends management obtain and review BCPs for NWOs that participate in the LIFT program to ensure NWOs can reasonably respond to events that could impact their operations.

Observation 2 – Prior Audit Review Lack of Recaptured Funds Log

During the 2014 audit review, Internal Audit (IA) observed a discrepancy in the recaptured (repaid) funds. Although there were no specific reporting requirements for recaptured funds, IA recommended the development and implementation of management level reports to track recaptured funds and their data points, including:

- date of recapture
- amount recaptured
- amount available for borrower assistance grants
- amount used for borrower assistance grants

Per management's response to the 2014 observation a log was going to be maintained to document this information.

For the current audit, Internal Audit was unable to obtain evidence of a log or other formal reporting that captured the data points previously described. Failure to formally document recaptured loans does not provide adequate tracking to support how recaptured funds are eventually treated. In addition, given that NeighborWorks America has previously encountered issues with appropriated recaptured funds, formal tracking of all recaptured funds should be adopted.

Recommendation 2 – Formal Tracking of Recaptured Funds

Internal Audit recommends that management develop and implement formalized management level reports to document recapture (repaid) loan information, which should include the date of recapture, the corresponding LIFT program, the amount recaptured, the amount available for borrower assistance grants, and the amount used for borrower assistance grants.

Conclusion

The review of the Neighborhood LIFT Programs identified a couple of opportunities where management can further strengthen its internal controls. Overall, NeighborWorks appears to be working closely with Wells Fargo and the NWOs to ensure the terms and obligations of the grant agreements are being satisfied. The funds allocated for the LIFT Programs appears to have been carried out in accordance to program guidelines and the corresponding grant agreements. Our interactions with National Initiatives team were collaborative and productive. We would like to extend our thanks to the Senior Vice-President and team for their cooperation and assistance during this review.

Appendix A “LIFT DPA payments (2016 – 2020)”

Fund Source	Progam/Contract	Passthrough Grant Payments By Fiscal Year					Contract Totals
		2016	2017	2018	2019	2020	
4D6	NeighborhoodLIFT	-	-	-	-	-	-
3M1	CityLIFT	4,028,019	-	-	-	-	4,028,019
3P8	NeighborhoodLIFT 2.0	1,598,669	-	-	-	-	1,598,669
3R3	HomeLIFT	6,879,719	2,164,040	168,000	-	-	9,211,758
3S5	NeighborhoodLIFT 3.0	21,267,350	15,718,284	11,551,800	1,076,035	-	49,613,469
3V2	NeighborhoodLIFT 4.0	-	4,500,000	21,590,000	-	-	26,090,000
3W0	NeighborhoodLIFT 5.0	-	-	20,699,850	39,575,600	(80,100)	60,195,350
3X6	NeighborhoodLIFT 6.0	-	-	-	21,204,050	21,517,900	42,721,950
3Y7	NeighborhoodLIFT 7.0	-	-	-	-	-	-
Fiscal Year Totals		33,773,757	22,382,324	54,009,650	61,855,685	21,437,800	193,459,215