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

From:   Frederick Udochi

cc:        Jeanne (Reitz) Fekade-Sellassie, (Consultant)

Date:   April 20, 2011

Subject:  Audit Review: Management of Vendor Outsourced Services

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 Management of Vendor Outsourced Services. Please review and let me know if you have any comments or questions.
Executive Summary

Audit Review of NFMC Management of Vendor Outsourced Services

<table>
<thead>
<tr>
<th>Business Function and Responsibility</th>
<th>Report Date</th>
<th>Period Covered:</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFMC Project Team</td>
<td>April 20, 2011</td>
<td>March 2008 - September 2010</td>
</tr>
</tbody>
</table>

Assessment of Internal Control Structure

<table>
<thead>
<tr>
<th>Effectiveness and efficiency of operations</th>
<th>Generally effective¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendations in specific areas are noted below.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reliability of Reporting</th>
<th>Generally effective</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Compliance with Applicable Laws and Regulations</th>
<th>Generally effective</th>
</tr>
</thead>
</table>

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

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

<table>
<thead>
<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation</th>
<th>Accept IA Recommendation (Yes/ No)</th>
<th>Management’s Response to IA Recommendation</th>
<th>Estimated Date of Implementation</th>
<th>Internal Audit Comments on Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>We observed some ambiguity in the contracting language for RFQ’s.</td>
<td>Yes</td>
<td>We strongly recommend that the ambiguity in the language in respect of RFQ requirements for Professional Service Contracts be reviewed and amended in order to provide consistency in interpretation and compliance.</td>
<td>Yes</td>
<td>Finance will make the necessary changes in the Administrative Manual Contract Policy Section to eliminate the ambiguity of the contract language in reference to RFQ and RFP procedures. As Finance explained to the Auditor at the exit interview session, in order to generate a Letter of Agreement the prospective consultant should have to complete the form. Since the RFP document has</td>
<td>The change will be implemented by July 31.</td>
<td>Internal audit accepts management’s response and has no further comments.</td>
</tr>
</tbody>
</table>

2 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.
not been designed to capture most of the information which are included in RFQ format, we encourage all consultants to complete the form. Finance also explained to the Auditor if the prospective consultant chooses not to be included in our RFQ database, a consultant can avoid completing the form. Finance would like to emphasis that there was no inconsistency when it comes to RFQ and RFP.
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.

<p>| Management Response to Audit Review Recommendations Management of Vendor Outsourced Services |
|-----------------------------------------------|-----------------------------------------------|</p>
<table>
<thead>
<tr>
<th># Of Responses</th>
<th>Response</th>
<th>Recommendation #</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agreement with the recommendation(s)</td>
<td>1</td>
</tr>
<tr>
<td>0</td>
<td>Disagreement with the recommendation(s)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Audit Review of Management of Vendor Outsourced Services

BACKGROUND INFORMATION

Due to the nationwide sub-prime foreclosure crisis, Congress approved legislation for the National Foreclosure Mitigation Counseling Program (NFMC) to address the nationwide foreclosure crisis. Since FY 2008, a total of $540 million has been appropriated to NFMC of which $440 million has been awarded to approximately 171 direct grantees in the form of grants nationwide that would increase the availability of housing counseling for families at risk of foreclosure. NeighborWorks America distributes funds to competitively selected grantee organizations, which in turn provide the counseling services, either directly or through Sub-grantee organizations. Grants are also being made to fund legal assistance to homeowners, and to train foreclosure counselors. Upwards of 1,700 counseling agencies operate under this program.

The NFMC program has outsourced a number of significant functions to third party consultants in the area of information technology, management consulting, training instruction and in the monitoring and oversight of programs to mention a few.

According to NeighborWorks® America’s procurement policy, the organization uses a two-tiered mechanism for managing the acquisition and use of professional services to ensure that these services are procured in the most efficient, cost-effective manner, without barriers to full and open competition, and free of any conflict of interest. The Request for Qualifications (RFQ) process is the primary mechanism for work that cost less than $20,000. A competitive Request for Proposal (RFP) process is required when the scope of a particular project or assignment is $20,000 and above.

NeighborWorks America generally employs two types of consultants: (1) those who apply as individuals and (2) those who apply as an organizational entity. Individual applicants need to complete Part II of the Request for Qualifications (RFQ), attach an updated resume and provide a one paragraph biographical sketch. Organizational applicants need to complete the same documents plus have a Principal from their organization fill out Part I of the Request for Qualifications (RFQ). Based on their qualifications and experience, applicants are added to the corporate database pool of eligible consultants.

To be considered for contractual work, the prospective consultant must fill out the RFQ application form and submit it to the RFQ Coordinator. The finance department will then prepare a Letter of Agreement (LOA) for signature by both parties. Once these steps are completed the prospective consultant will then be added to the RFQ database for future consideration. A Letter of Agreement with a former employee of NeighborWorks America or a relative of a former employee requires the approval of the Chief Executive Officer and the General Counsel.

Letters of Agreement are good and effective for a period of three years. Specific services, dates and times of performance, fees and expenses will be requested through a Task Order signed by
the Division Director or other individual with a delegated level of authority who will also approve the invoices submitted by the contractor/consultant.

OBJECTIVE

The objective was to determine that the procurement of Outsourced Services was conducted in accordance with NeighborWorks America policies in respect of the procurement policy. This primarily included obtaining assurance that:

- The outsourcing process complies with internal control policies and procedures,
- Vendor selection and Contracts are properly processed and approved with due diligence occurring at each step of the process,

SCOPE

The audit covered a sample of selected vendors who were either individuals or corporate entities who had entered into contractual relationships with the corporation’s NFMC program between the period of March 1st 2008 and September 30th 2010. The audit approach attempted to identify and evaluate key controls that facilitate compliance with corporate documented procedures in the tendering, selection and approval steps in the procurement process. The audit did not evaluate vendor performance, or the viability and competence of contractors. This aspect of the contractual process we plan to undertake in future reviews under our External Business Relationship project.

Based on materials received from Finance we determined that $2.5 million was expended on various contracted outsourced services for the period March 2008 to September 30 2010. Our sample covered a total of $2 million which was the aggregate amount of selected transactions.

The following areas were examined during the audit:

- Financial/Accounting Entries
- Status of Contracts/Vendors
- Segregation of Duties
- Authorization of Contracts
- Request for Qualifications (RFQ’s)
- Request for Proposals (RFP’s)
- Task Orders (TO’s)

AUDIT APPROACH/METHODOLOGY

3 Internal audit is currently in FY 11, identifying and inventorying all external business relationships (EBR’s) undertaken by the Corporation. EBR’s are considered to be those vendor relationships entered into by the corporation for the purpose of leveraging their core competencies other than developing them in-house. The objective would be to effectively assess and monitor contractual expectations and expected levels of service appropriately for such critical operations.
NeighborWorks America’s Internal Audit Department selected a sample of consultant/contract packages for a test of controls in place of the procurement process. The three major NFMC program contract packages involved were in the area of program monitoring and oversight; providing management consulting services and providing a range of information technology services. Internal audit obtained a copy of the updated NeighborWorks America Procurement Policy which served as the main control document for the audit process.

The team reviewed the Procurement Policy in order to obtain an understanding of the various controls established to direct the outsourcing process. We engaged in several correspondences with the Director of the NFMC Program, the Finance team and other stakeholders in order to obtain details involving the selection process, authorization, execution and evaluation of contracts.

In general we observed a high level of compliance with the procurement policy of NeighborWorks. The vendor selection process involving the invitation of tenders was coordinated with documentary evidence to support the basis of the final choice. Essential documents pertaining to individual consultants were adequately classified and readily available upon demand from both the NFMC and Finance teams respectively.

**OBSERVATION and RECOMMENDATION:**

*Observation:*

We observed that there was some inconsistency in the interpretation of the contracting language for RFQ’s. The current language suggests on one hand that an RFQ is required only for contracts below $20,000 while in another it is required for all contracts irrespective of the amount. This ambiguity had led to inconsistencies in compliance by staff in a number of instances.

The NeighborWorks America procurement policy states:

- **Professional Service Contracts – Introduction**

  “NeighborWorks® America uses a two-tiered mechanism for managing the acquisition and use of professional services to ensure that these services are obtained in the most efficient, cost-effective manner, without barriers to full and open competition, and free of any conflict of interest. The Request for Qualifications (RFQ) process is the primary mechanism for work that is believed to cost under $20,000. A competitive Request for Proposal (RFP) process is required when the scope of a particular assignment is likely to be $20,000 and above.......”

The following section contradicts the requirement in the previous section as follows:

- **Request for Qualifications and RFQ Database**
NeighborWorks® America maintains a RFQ consultant database, which identifies a pool of consultants for professional service contracts. All new consultants wishing to engage in business with NeighborWorks® America must submit an RFQ application to the contract officer. The contract officer will enter the consultant into the RFQ database on www.nw.org and check references.

- Request for Proposal (RFP)

The following steps will be taken for all professional service contracts more than $20,000:

5. The requesting manager determines which bid is the best value for NeighborWorks® America (not limited to price), writes the related statement of work and task order; and – depending on their level of delegated authority – obtains the approval of his or her supervisor. If the selected contractor is not currently in the RFQ database, the manager asks the consultant to complete an application.

The foregoing statement implies that all professional service contracts above $20,000 will still undergo an RFQ process if that requirement had not been fulfilled earlier on.

As earlier expressed, compliance with the NeighborWorks’ America’s procurement policy potentially becomes inconsistent in some cases and gives room for variability in interpretation.

Recommendation:

We strongly recommend that the ambiguity in the language in respect of RFQ requirements for Professional Service Contracts be reviewed and amended in order to provide consistency in interpretation and compliance. This amendment will enable all readers of the policy to have a common interpretation of the text in order to facilitate a more consistent compliance effort.

CONCLUSION

Based on the test work performed as part of this review, the procurement of Vendor Outsourced Services was conducted in substantial compliance with the relevant appropriating language and corporate policies. We would like to thank especially the Administration of the National Foreclosure Mitigation Counseling Program and the NeighborWorks Finance team for their cooperation during this review.