To: Ken Wade, Eileen Fitzgerald, Jeffrey Bryson
From: Frederick Udochi
cc: Jeanne Fekade-Sellassie, Mia Bowman, (Internal Audit Consultant),

Date: September 12, 2008

Subject: Audit Review: NFMC Complaint Management Process

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 Complaint Management project. Please review and let me know if you have any comments or questions. Thank you.
Executive Summary

Audit Review of NFMC Complaint Management Process

<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>September 02, 2008</td>
<td>April – May 2008</td>
</tr>
</tbody>
</table>

Assessment of Internal Control Structure

| Effectiveness and efficiency of operations | Generally effective.\(^1\) |
| Compliance with Applicable Laws and Regulations | Generally effective. |

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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. 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.
I. Executive Summary

The complaint management process, as placed in operation, has been effective in limiting the escalation of complaints that would have otherwise distracted NeighborWorks® America from its primary focus in managing the NFMC. The process has also served to strengthen and maintain NeighborWorks® America’s relationships with the applicants/grantees and the homeowner counseling community.

II. Objective

The objectives of the audit were to ensure that appropriate procedures are in place within NeighborWorks® America and the NFMC project team to receive, process and respond to complaints related to the program.

III. Scope

The scope of the audit was limited to the design and execution of the complaint management process, comprising all activities in place to address complaints and requests for clarification related to NFMC grants. A key element of this process involves debriefing meetings held with individual applicants to discuss the application review process, resulting grant awards and recommendations for improvement towards future grants.

IV. Background

On 26 December 2007, the United States Congress appropriated $180 million for the NFMC Program to rapidly alleviate the foreclosure crisis currently underway the nation. At least $167.8 million of the amount appropriated was to be awarded through a competitive grant process. In late January 2008, NeighborWorks® America’s NFMC Program team published a Final Funding Announcement on the NFMC external internet web site to describe program activities and define requirements for prospective participants and applicants for funding. 156 organizations applied for the NFMC grants and on 26 February 2008, NeighborWorks® America announced that it had granted $130.8 million in grants to 130 of these organizations, comprised of 16 HUD-approved housing counseling intermediaries, 32 state housing finance agencies and 82 NeighborWorks® organizations (NWOs).

NeighborWorks® America incorporated within the NFMC program design a complaint management process to deal with anticipated complaints in connection with the grant decisions. This process would, in turn, build upon the application review process and its outcomes. NeighborWorks® America ultimately received complaints and requests for clarification from 33 applicant organizations. Most of these were received directly by NWA management but in a few cases, the complaints were also brought to the attention of the NeighborWorks® America Board.

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We found that in each instance the specific complaints followed a due process and were favorably mitigated. A key element of the complaint management process centered on holding debriefing meetings, (available upon request) each one with representatives of a given applicant and typically lasting 30 – 60 minutes. These meetings were scheduled between 22 April and 06 June 2008.

V. METHODOLOGY

This audit project was launched through an introductory meeting on 16 July 2008, during which NFMC project management provided a synopsis of the process employed and results to date.

Internal audit staff also sat in as observers to a selected sample of five debriefing meetings. The applicants pertaining to the sample were:

- [List of applicants]
- [List of applicants]
- [List of applicants]
- [List of applicants]
- [List of applicants]

Observations specific to each of these debriefing meetings are reflected in Attachment B, below.

VI. AUDIT OBSERVATIONS

1. The NFMC project has maintained adequate documentation (from the application review and funding recommendation process) to serve as input and to support the debriefing meetings.

2. The team has also maintained sufficient records (minutes), for internal purposes, of what transpired during the debriefing meetings themselves.

3. The structured and systemic approach in the administration and delivery of the meetings, combined with evidence from the application review and funding assessment process, enhanced the credibility of the debriefing process and apparently helped to mitigate the risk of escalation of complaints from applicants outside this process.

4. Based on the sample debriefing meetings observed, most applicants appeared to be reasonably satisfied that NFMC’s evaluation of their applications and resulting funding recommendations were fair.

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3 See Attachment A for a list of debriefing meetings.
VII. GENERAL OBSERVATIONS

- The debriefing meetings followed a defined structure. After brief greetings and stock-taking of the participants and attendees, the NFMC team provided an overview of the review process along with basic descriptive statistics, including possible scores, the maximum obtained and those assigned to the given applicant.

- The debriefings covered numerous dimensions addressed by the applications, including such diverse aspects as marketing and outreach, the extent to which proposed ramp-ups were realistic, the apparent quality of counselors proposed, the nature of matching funds and the client management system to be employed by applicant.

- For each of the applicants, the NFMC team disclosed the total number of points assigned to the applicant, within the context of the maximum possible and maximum actually obtained. For each applicant, the team also discussed specific strengths and weaknesses and how these contributed into the final assessment and funding recommendation.

- There were 2 exceptional cases namely the following sampled in our review:
  
   protested NWA’s decision not to award that organization a grant. Decisions by NWA were deemed final and subsequently protested to the United States Government Accountability Office (GAO), which later dismissed the protest on the grounds that the issue was outside GAO’s jurisdiction.

   requested that NWA be removed from any direct or indirect review or involvement with regards to application. requested approximately $33 million and ultimately received $15 million.

In both cases we are of the opinion that the applicant complaints were treated fairly and equitably, in accordance with the complaint management process and as provided for all applicants.

VIII. CONCLUSION

We found this component of the NMFC program to be very well organized and efficiently managed in the context of mitigating corporate reputational risks. The complaint management process involves a learning experience for both the corporation and grantees and should remain an integral part of the NMFC program for any subsequent funding rounds. Our thanks to the NMFC Program Director and staff for their cooperation on this project.
<table>
<thead>
<tr>
<th>NWO, HFA, or Intermediary?</th>
<th>Rec’d Funds?</th>
<th>Name of Organization</th>
<th>Date/Time of Debriefing</th>
<th>Mode</th>
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<td>4/22/2008 10:30am - 11:30am EDT</td>
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<tr>
<td></td>
<td></td>
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<td>4/23/2008 3:00 pm - 4:00 pm EDT</td>
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<td>In Person</td>
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<tr>
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<td></td>
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</tr>
<tr>
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<td>5/6/2008 4pm - 5pm NTI</td>
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<td>5/8/2008 10am - 11am</td>
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<td>HFA</td>
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<td></td>
<td>5/8/2008 1pm - 2pm</td>
<td>Phone</td>
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<tr>
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<td>5/8/2008 4:30pm - 5:30pm</td>
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<td>5/22/2008 2:00 - 3:00 pm EDT</td>
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<td>HFA</td>
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<td>5/23/2008 11am - 12pm EDT</td>
<td>Phone</td>
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<tr>
<td>NWO</td>
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<td>5/23/2008 2:30pm - 3:30pm EDT</td>
<td>Phone</td>
</tr>
<tr>
<td>HFA</td>
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<td></td>
<td>5/23/2008 4pm - 5pm EDT</td>
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<td>5/28/2008 10:00 - 11:00 Eastern</td>
<td>In Person</td>
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<td>5/29/2008 noon - 1pm EDT</td>
<td>Phone</td>
</tr>
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<td>WEEK OF JUNE 2 - 6</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Intermediary</td>
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<td>6/6/2008 - 4pm - 5pm EDT</td>
<td>In Person</td>
</tr>
<tr>
<td>HFA</td>
<td>Y</td>
<td></td>
<td>7/1/2008 - 2pm - 3pm EDT</td>
<td>Phone</td>
</tr>
</tbody>
</table>
**Attachment B**

**NeighborWorks® America IA Evaluation Form**

**Debriefing Meeting for NFMC Grantees**

Debriefing Date: 09 May 2008, 1:00 – 1:40 p.m.

Evaluation Type: X Phone Face to Face

Organization: ______________

Evaluator: ______________

Organization was Granted an award? X yes _____ no

Circle the appropriate response, using the comments section to justify your response

<table>
<thead>
<tr>
<th>If Organization Received an Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Rate how well strengths and weaknesses were justified to the organization</td>
</tr>
<tr>
<td>1(not well at all) 2 3 4 5(very well)</td>
</tr>
<tr>
<td>B) Rate the overall plan of action/direction for improvement given to the organization</td>
</tr>
<tr>
<td>1(weak/no plan) 2 3 4 5(strong/informative)</td>
</tr>
</tbody>
</table>

**Overall Assessment:**

Applicant came to understand the assessment by the reviewers and the underlying rationale provided by NFMC. Reviewer observations included:

- Applicant received credit for its proposed quality control process, match and experience.
- However, the applicant did not sufficiently describe its target clientele or marketing plan. In this regard, the marketing plan placed inordinate reliance on NWA.
- Similarly, the applicant did not sufficiently elaborate on the jump involved in its staffing plan and operations plan.
- Not enough detail was provided regarding how program support funds were going to be employed.
- Applicant apparently assumed that NWA would undertake all the hotline work on the applicant’s behalf.

Applicant received score of 28 / 45 and 26.1% of requested funding.

<table>
<thead>
<tr>
<th>If Organization DID NOT Receive and Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>C) Rate how well reasons for denial of funding were justified to the organization</td>
</tr>
<tr>
<td>1(not well at all) 2 3 4 5(very well)</td>
</tr>
<tr>
<td>D) Rate the overall plan of action/direction for improvement given to the organization</td>
</tr>
<tr>
<td>1(weak/no plan) 2 3 4 5(strong/informative)</td>
</tr>
</tbody>
</table>

**F) What major areas should the organization focus on for the next grant proposal?**

- *Proposal Structure*
- *Scope of Service*
- *Quality Control*
- *Budgeting*
- *Goals and Missions*
- *Other Areas:

**Overall Assessment:**
Debriefing Date: 09 May 2008, 1:00 – 1:40 p.m.
Evaluation Type: __X_Phone _____Face to Face
Organization: ___________
Evaluator: ___________
Organization was Granted an award? __X yes ______no

Circle the appropriate response, using the comments section to justify your response

If Organization Received an Award

A) Rate how well strengths and weaknesses were justified to the organization
1(not well at all)   2  3  4  5 (very well)

B) Rate the overall plan of action/direction for improvement given to the organization
1(weak/no plan)   2  3  4  5(strong/informative)

Overall Assessment:

Discussion was structured and fruitful. The forum was also used to help clarify applicant a few questions regarding program administration. Reviewer observations included:

- Applicant received credit for its marketing and outreach plan.
- Reviewers noted that 75% of the counselors have foreclosure experience.
- Training plans appeared to be effective.
- It was also noted positively that the applicant already uses a client management system (NStep).
- Appears to be some variance on anticipated number of hours required per customer.

The Applicant received a score of 32 / 39 and 76.1% of its funding request.

If Organization DID NOT Receive and Award

C) Rate how well reasons for denial of funding were justified to the organization
1(not well at all)   2  3  4  5(very well)

D) Rate the overall plan of action/direction for improvement given to the organization
1(weak/no plan)   2  3  4  5(strong/informative)

F) What major areas should the organization focus on for the next grant proposal?
*Proposal Structure  *Research  *Funding Allocation
*Scope of Service   *Program Implementation *Program Management
*Quality Control  *Results Measures *Needs Assessment
*Budgeting  *Marketing  *Growth Management
*Goals and Missions *Applicant Capacity  *Staff Capacity
*Other Areas: _____________________________________________

Overall Assessment:
NeighborWorks® America IA Evaluation Form
Debriefing Meeting for NFMC Grantees

Debriefing Date: 24 May 2008,
Evaluation Type:  _X_ Phone   ______ Face to Face
Organization: [Redacted]
Evaluator: [Redacted]
Organization was Granted an award?  _____yes  _X_ no

Circle the appropriate response, using the comments section to justify your response

If Organization Received an Award

A) Rate how well strengths and weaknesses were justified to the organization
1(not well at all)   2   3   4   5(very well)

B) Rate the overall plan of action/direction for improvement given to the organization
1(weak/no plan)   2   3   4   5(strong/informative)

Overall Assessment:

If Organization DID NOT Receive and Award

C) Rate how well reasons for denial of funding were justified to the organization
1(not well at all)   2   3   4   5(very well)

D) Rate the overall plan of action/direction for improvement given to the organization
1(weak/no plan)   2   3   4   5(strong/informative)

F) What major areas should the organization focus on for the next grant proposal

*Proposal Structure  *Research   *Funding Allocation
*Scope of Service   *Program Implementation   *Program Management
*Quality Control   *Results Measures   *Needs Assessment
*Budgeting   *Marketing   *Growth Management
*Goals and Missions   *Applicant Capacity   *Staff Capacity
*Other Areas: ________________________________________________

Overall Assessment:

Applicant came to understand, and apparently accepted, the reasons underlying the assessment, including:

- A very aggressive ramp-up (177 to 3,400 counseling units) was proposed without sufficient elaboration on how this would be successfully achieved.
- Reviewers were concerned about the experience of the proposed sub-grantees; less than half of them have received training.
- The marketing / outreach plan was deemed insufficient; it relied entirely on the 800 number campaign.
- Although the hiring plan was considered creative, no timeframes were provided.
- Almost all of the match was in-kind, limiting the level of growth proposed.

Applicant received score of 12.7 / 45 and did not receive any NFMC funding.
NeighborWorks® America IA Evaluation Form
Debriefing Meeting for NFMC Grantees

Debriefing Date: 23 April 2008, 3:00 – 3:45 p.m.
Evaluation Type: _X_Phone _______Face to Face
Organization:
Evaluator:
Organization was Granted an award? _______yes __X__no

Circle the appropriate response, using the comments section to justify your response

If Organization Received an Award

A) Rate how well strengths and weaknesses were justified to the organization
1(not well at all)  2  3  4  5(very well)
B) Rate the overall plan of action/direction for improvement given to the organization
1(weak/no plan)  2  3  4  5(strong/informative)

Overall Assessment:

If Organization DID NOT Receive an Award

C) Rate how well reasons for denial of funding were justified to the organization
1(not well at all)  2  3  4  5(very well)
D) Rate the overall plan of action/direction for improvement given to the organization
1(weak/no plan)  2  3  4  5(strong/informative)

F) What major areas should the organization focus on for the next grant proposal?
*Proposal Structure  *Research  *Funding Allocation
*Scope of Service  *Program Implementation  *Program Management
*Quality Control  *Results Measures  *Needs Assessment
*Budgeting  *Marketing  *Growth Management
*Goals and Missions  *Applicant Capacity  *Staff Capacity
*Other Areas: Lack of detail in application provided as primary reason for poor score

Overall Assessment:

Applicants left the meeting with a sense of closure.

The reviewers provided sufficient justification for the denial of the grant award. The lack of detail surrounding key features of an aggressive operational plan laid out in the application was a deciding factor. There was limited information on the marketing plan and partnerships. There also were inconsistencies in the numbers behind the goals presented and anticipated recruits. It was explained to the applicant that if it had made a strong case in terms of how it could have delivered the program (e.g., by better emphasizing the organization’s experience in grant management and how this would be leveraged for NFMC), the application would have been looked at more favorably. The applicant recognized that it has no experience or track record managing sub-grantees and would do a better job in preparing its applications in future.

The Applicant received score of 16.3 / 45 and did not receive any NFMC funding.
Debriefing Date: 29 April 2008, 1:00 – 2:00 p.m.
Evaluation Type:  ___Phone ___X__Face to Face
Organization: [redacted]
Evaluator: [redacted]
Organization was Granted an award?  ___X__yes _____no

Circle the appropriate response, using the comments section to justify your response

<table>
<thead>
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</thead>
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</tr>
<tr>
<td>1(weak/no plan) 2 3 4 5(strong/informative)</td>
</tr>
</tbody>
</table>

Overall Assessment:

Applicants’ questions were satisfactorily answered by the review team.

The application was considered very strong, including the experience of sub-grantees in foreclosure counseling, the marketing plan, quality control aspects and the case for Program-Related Support funds. NFMC explained that the reviewers’ recommended amount was substantially less than that requested ($80 million) because of the limited total funding. Furthermore, points were taken off in connection with oversight of grantees and technical assistance / training. There was also some question about the applicant’s ability to match its aggressive goals with the capacity to deliver.

Applicant received score of 34 / 45 and 15.4% of requested funding (due primarily to the $15 million cap on award amounts).

<table>
<thead>
<tr>
<th>If Organization DID NOT Receive and Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>C) Rate how well reasons for denial of funding were justified to the organization</td>
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</tr>
<tr>
<td>*Goals and Missions *Applicant Capacity *Staff Capacity</td>
</tr>
<tr>
<td>*Other Areas: _Lack of Detail provided as overall reason for poor score</td>
</tr>
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</table>