

Internal Audit Department
NeighborWorks® America

Audit Review of Grant Appropriation Disbursements

Project Number
NW.NI.APPGRNTDISBMT.2020

Audit Review of Grant Appropriation Disbursements

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June 18, 2021

To: NeighborWorks America Audit Committee

Subject: **Audit Review of Grant Appropriation Disbursements**

Attached is our draft audit report for the Grant Appropriation Disbursements review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: M. Rodriguez
S. Ifill
K. Esmond
R. Simmons

**Function Responsibility and Internal Control Assessment
Audit Review of Grant Appropriation Disbursements**

| Business Function Responsibility | Report Date | Period Covered |
|---|--|--------------------------------------|
| Field | June 18, 2021 | October 1, 2019 – September 30, 2020 |
| Assessment of Internal Control Structure | | |
| Effectiveness and Efficiency of Operations | Generally Effective¹ | |
| Reliability of Financial Reporting | Not Applicable | |
| 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</p> <p>Supplemental Grants – Lack of Formally Documented Process</p> <p>During the review Internal Audit observed that the Supplemental grants² process is not formally documented. While there appears to be a process in place informally, that includes reviews; Internal audit was unable to obtain any document that formally detailed the process. The absence of formally documented processes increases the risk of the loss of institutional knowledge during staff turnover,</p> | Yes | <p>Recommendation # 1</p> <p>Formally Document Supplemental Grants Process</p> <p>Internal Audit recommends that Management formally document the Supplemental Grants process. Care should be taken to ensure that the formally documented process is in alignment with current practices. Once the process has been formally documented it should be formally communicated to all relevant staff and</p> | Yes | Field Operations Division agrees with Internal Audit’s recommendation. The grants management team does have a desk guide which has detailed step-by-step instructions for its processing of grants. However, we agree that a process document which could be easily understood and used by staff involved with grants across the corporation would be helpful. | March 31, 2022 | Internal Audit accepts Management’s response. |

² Supplemental grants are discretionary grants based on each region’s and other NeighborWorks divisions’ targeted priorities for the fiscal year.

| 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 |
|--|--|---------------------------------------|---------------------------------------|--|--|--|
| inconsistent operations, or potential fraud. . Risk Rating: (b) (5) | | training provided as necessary. | | | | |

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: Grant Appropriation Disbursements | | |
|---|---|-------------------------|
| # Of Responses | Response | Recommendation # |
| 1 | Agreement with the recommendation(s) | 1 |
| | Disagreement with the recommendation(s) | |

Background

One of NeighborWorks' primary missions is awarding federal grants to network and non-network organizations. Congress provides an annual appropriation to NeighborWorks America for this purpose, which is used to create opportunities for people to live in affordable homes, improve their lives and strengthen their communities.

The FY2020 grants budget recommendation was based on the \$157.5 million appropriation. Grant funding was set at 65.7% of the appropriation which amounted to \$103.5 million. Near the end of the fiscal year in September 2020, an additional \$1.5 million was approved and re-directed from operational appropriated funds. The additional funding brought the total grant appropriation for FY 2020 to \$105 million. The awarding of federal grants accounts for the largest outflows of cash for the Corporation.

Objective

The objective of this review was to obtain reasonable assurance:

- that grant appropriations, allocations, and disbursements are conducted in compliance with the relevant appropriating language and corporate policies.

Scope

Internal Audit conducted a review of the core grants (appropriations) disbursements 10/1/2019 thru 9/30/2020. This includes grant eligibility, delegation of authority, allocation methodology, and guidelines for distribution/disbursement. This review is not inclusive of the application review process.

Methodology

Internal Audit met with Field to obtain an understanding of the grant funding and allocation process. We obtained and reviewed numerous documents related to the appropriated grants, including but not limited to the Round One Decision Memo and Grants Formula Workbook, Round One Instruction and Formula Explanation, FY20 Budget Planning Instructions, Final FY20 Budget, Grants and Grantee Monitoring Policy, various memos and emails, and supporting documentation in both Grants Portal and NetSuite. Internal Audit also reviewed and compared the Grants Portal disbursements totals to the actuals per the budget, the non-network cap, and additional funding provided to the grants budget.

The population, obtained from Field using Grants Portal, was divided into four categories (Round One, Round 2 SIF COVID-19, NeighborWorks – Affiliated Capital Corporation, and Remaining Grants). The sample size that was selected for each category was based on a percentage of the category total compared to the population total (See Appendix B). Excel's random number generator was used to select samples from each category. It was determined that additional samples were required to ensure inclusion of supplemental grants from all regions. These additional samples were judgmentally selected and included in the remaining grants

category. For each sample that was selected for detailed testing Internal Audit reviewed the eligibility, grant agreement, delegation of authority, disbursement in NetSuite, and any other corresponding approvals and supporting documentation. Grant awards that were determined using calculations were recalculated.

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

Observations and Recommendations

Observation #1 Supplemental Grants – Lack of Formally Documented Process

An essential and effective component of internal controls is having adequate policies and procedures that are periodically reviewed to maintain operations, accomplish goals, ensure compliance with rules or regulations, and prevent fraud. During the review Internal Audit observed that the Supplemental grants³ process is not formally documented. While there appears to be a process in place informally, that includes reviews; Internal audit was unable to obtain any document that formally detailed the process. Although supplemental funds are covered by the Grants Monitoring Policy it did not outline the specific process for the Supplemental Grants. It should also be further noted that the policy itself, does not provide specific processes of how grants are awarded.

The absence of formally documented processes increases the risk of the loss of institutional knowledge during staff turnover, inconsistent operations, or potential fraud.

Recommendation #1 Formally Document Supplemental Grants Process

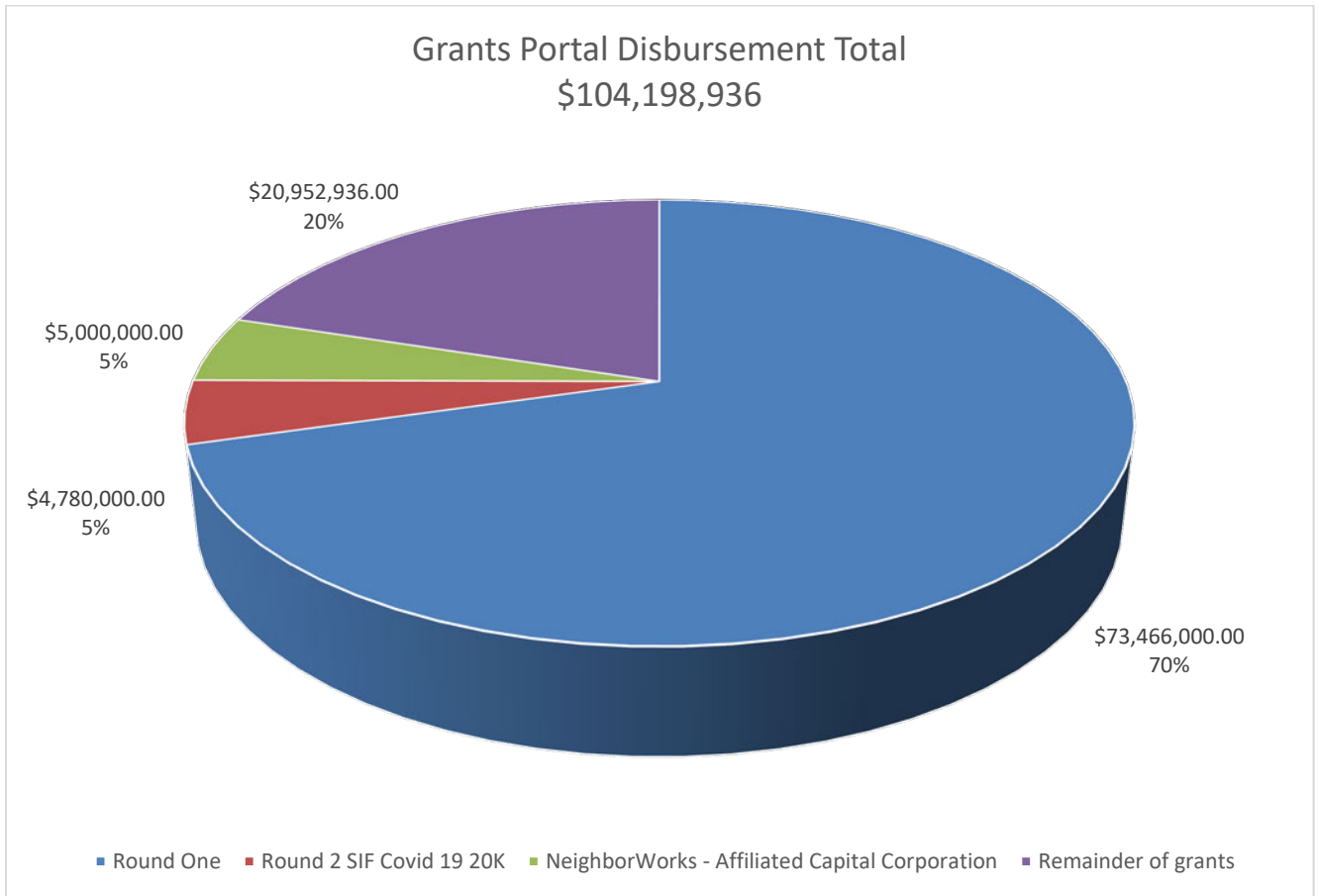
Internal Audit recommends that Management formally document the Supplemental Grants process. Care should be taken to ensure that the formally documented process is in alignment with current practices. Once the process has been formally documented it should be formally communicated to all relevant staff and training provided as necessary.

Conclusion

The audit review of the Grant Appropriation Disbursements found that the overall grants appropriation and allocation process for the period in review, appear to have been conducted in accordance with corporate policies and procedures, grant agreements, and the relevant appropriating language. In addition, no exceptions pertaining to disbursements were noted. Our interactions with Field 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.

³ Supplemental grants are discretionary grants based on each region's and other NeighborWorks divisions' targeted priorities for the fiscal year.

APPENDIX A - Breakdown of Grants Portal Disbursements



APPENDIX B - Population and Sampling Details

| | | | | | | | |
|---|-------------------|--|---------------------------|------------------|---------------|-------------|--------------------------|
| Total population 1985 | | | | | | Sample Size | Sample for each category |
| | | | | | | 25 | |
| | | | NetSuite - Budget Actuals | Grants Portal | | | |
| Tab Names/Grant Categories Selected for testing | Amounts | | \$104,998,568.83 | \$104,198,936.00 | | | |
| Round One | \$ 73,466,000.00 | | 69.97% | 70.51% | 70% | 17.5 | 18 |
| Round 2 SIF Covid 19 20K | \$ 4,780,000.00 | | 4.55% | 4.59% | 5% | 1.25 | 1 |
| NeighborWorks-Affiliated Capital Corporation Grant Request FY20 | \$ 5,000,000.00 | | 4.76% | 4.80% | 5% | 1.25 | 1 |
| Remainder of the grants | \$20,952,936.00 | | | 20.11% | 20% | 5 | 5 |
| | | | | | | | |
| | Total | | Total | Total | Rounded Total | | Total |
| | \$ 104,198,936.00 | | 79.28% | 100.00% | 100% | | 25 |