



NeighborWorks America

SEMIANNUAL REPORT TO CONGRESS

For the Period July 1, 2024 to December 31, 2024

Message from the Chief Audit Executive

On behalf of the Internal Audit Division of the Neighborhood Reinvestment Corporation, DBA NeighborWorks America, I am pleased to present our Inaugural Semiannual Report for the period July 1, 2024, to December 31, 2024, to the NeighborWorks America Board of Directors and the Congress. This report summarizes our audit observations, recommendations, and other activities for that period.

As part of our effort to align NeighborWorks America Internal Audit Division activities with some of the reporting functions of the Office of Inspector General (OIG), the Chief Audit Executive will begin to submit subsequent semi-annual reports to Congress in accordance with the mandatory reporting periods of October 1 through March 31, and April 1 through September 30.

In this reporting period, the Internal Audit Division resources were largely devoted to the implementation and closure of the Government Accountability Office (GAO) Report with recommendations for NeighborWorks America, of which seven out of ten recommendations have been closed for this reporting period.

The NeighborWorks America Internal Audit Division remains committed to promoting economy, efficiency, and effectiveness in the organization's operations. We will continue to conduct audit activities, investigations, and other activities to ensure accountability and to protect against waste, fraud, and abuse.

In closing, I would like to thank the Board of Directors and the Audit Committee for their very dedicated support of the internal audit activity in meeting its mission and mandate. The Board and Management have been very responsive to the Internal Audit Division recommendations and committed to facilitating closures expeditiously.

Frederick Udochi

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Chief Audit Executive

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Introduction

The Internal Audit Division function of NeighborWorks America was created in 1988 by the Board of Directors to facilitate Board oversight of the organization's governance, risk management, and compliance activities with applicable financial and operational procedures, rules, and regulations, in addition to ensuring the protection of funds against waste, fraud, and abuse. The Chief Audit Executive reports functionally and operationally to the Audit Committee/Board of Directors and administratively to the Chief Executive Officer.

There are two primary documents that govern the activities of the Internal Audit Division function: the [Audit Committee Charter](#) and the [Internal Audit Charter](#). The Internal Audit Division operates within the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The Standards are principle-focused and provide the framework for performing and promoting internal audit activities. The Standards cover areas such as planning and managing engagements, communicating, monitoring results, independence and objectivity, and a quality assurance improvement program.

Annual financial audits are required to be conducted by an independent public accounting firm and for this period the organization contracted with CliftonLarsonAllen (CLA) to conduct said audits. This external audit must comply with audit requirements contained in Subpart F of 2 C.F.R. Part 200. These requirements also include review of a schedule of expenditures, financial statements, internal controls, and compliance with applicable law and terms and conditions of federal awards¹. The external financial audit must be conducted in accordance with formal industry standards set by the American Institute of Certified Public Accountants and with generally accepted government auditing standards applicable to financial audits².

The annual audit report presents the financial position of the organization at the end of the current fiscal year and the past fiscal year. The results of the external audits are communicated directly to the Board of Directors and can be accessed on the NeighborWorks America [website](#).

¹ See, e.g., 2 C.F.R. § 200.514.

² GAO, Government Auditing Standards: 2018 Revision, GAO-18-568G (Washington, D.C.: July 17, 2018).

Internal Audit Activity Completed

A total of three internal audit reports were completed during this period with one report issued. Two additional reports are pending final internal review.

Audit Reports Issued

- (I) Audit of NeighborWorks America Cyberattack Identification and Response, *issued July 22, 2024*
The Internal Audit Division conducted this review to obtain assurance on the effectiveness of the organization's cyber security incident program. The review focused on the protocols, processes, and procedures surrounding incident detection and response capabilities, including compliance with organizational policies and applicable regulations. The scope of the review was limited due to the involuntary disbanding of the Information Technology & Services (IT&S) Security Team in the preliminary stages of the review. A follow-up review is currently underway to obtain adequate assurance on the effectiveness and efficiency of the incident and response program.

Audit Recommendations

- (a) Develop and establish an updated Incident Response Plan (IRP) as well as a Communication Plan integrated into the IRP with annual revisions to the Plan to ensure its relevancy [*Implementation Date: 9/30/2024*].
- (b) The Internal Audit Division recommends IT&S integrating Security Operations Center (SOC) practices in all IT support tiers for cybersecurity by adopting an initiative-taking SOC approach to boost their security stance. All IT support teams, from first line to beyond, should consider emulating the SOC team [*Implementation Date: 9/30/2024*].
- (c) The Internal Audit Division strongly recommends that IT third-party Service Level Agreements (SLAs) meet the general criteria elements as outlined [in the audit report] [*Implementation Date: 7/31/2024*].
- (d) The Internal Audit Division recommends that IT&S provide a Quarterly Status Report for the IT&S Cybersecurity and Information Risk Management upon completion of the Transition Plan.
The Internal Audit Division also recommends undertaking an assessment of the Transition Plan for its adequacy in continuity of the Corporation's IT security. For both completed reports, Management has implemented all recommendations identified [*Implementation Date: 9/30/2024*].

All recommendations from the initial review have been implemented by the IT&S Team.

Audit Reports Completed – Pending Final Internal Review

- (II) Audit of the Corporation's Privileged/Non-Privileged Access Management Policies
The objective of this review was to obtain reasonable assurance that the organization's privileged and non-privileged access management policies to authorize and authenticate access to data, applications, and systems were developed in accordance with applicable standards, to mitigate cyber security risks to the organization.

- (III) **Audit of the Corporation's Enterprise Risk Management (ERM) Program**
The objective of this audit report was to obtain reasonable assurance that ERM had been incorporated into business systems to facilitate the identification of internal and external risks as it affects the Corporation's strategic plan.

Investigative Activities

Whistleblower Allegation & Retaliation Activities

The Vice President of Ethics & Compliance is currently reviewing one matter that was submitted to the anonymous reporting system in December 2024. The Vice President of Ethics & Compliance in the Office of General Counsel is primarily responsible for the corporation's ethics and compliance program, including whistleblower and conflict of interest policies with any related inquiries and investigations. The Chief Audit Executive is kept informed of these activities and related outcomes.

An anonymous reporter had inquired about the remote work approval policy and a shared concern that a request for remote work might not have received fair treatment (no identifying details were shared). The Vice President of Ethics & Compliance is reviewing the Voluntary Remote Work Policy as well as documentation related to recent remote work requests and has posted responses to the reporter indicating that we are reviewing the issue. Thus far, nothing suggests a policy violation or a whistleblower issue.

There were no other investigative activities conducted during this period.

We have received no reports that meet the definition of a whistleblower allegation or retaliation as defined by the NeighborWorks America Whistleblower Policy.

Attempts to Interfere with Chief Audit Executive Independence

There have been no attempts on the part of management to interfere with the Chief Audit Executive's access to records, properties, and personnel related to the performance of the Chief Audit Executive's duties.

Status of the Government Accountability Office (GAO) Final Recommendations

On June 14, 2023, the Government Accountability Office (GAO) issued a final report with recommendations for NeighborWorks America. The report entitled, “Community Redevelopment: Significant Improvements in Policies and Procedures Are Needed at NeighborWorks America,” included ten recommendations, all of which were accepted by NeighborWorks America.

To date all activities and materials have been concluded to implement closure for all ten recommendations, with seven recommendations having been officially closed by the GAO and three others awaiting final confirmation of closure.

Three of those ten recommendations (Recommendations 8, 9, & 10) were specific to the Internal Audit Division activity. Below is the status of all three Internal Audit Division recommendations from the GAO Report 23-105944.

Recommendation #8: CLOSED

NeighborWorks America Chief Audit Executive in collaboration with the Audit Committee should develop and implement a formalized process to document and communicate restrictions on internal auditors from assessing specific operations for which they were previously responsible in accordance with the International Standards for the Professional Practice of Internal Auditing impairments to independence or objectivity.

Corrective Action

Policy guidelines on Independence and Objectivity were developed and deployed to staff. The new policy guidelines also included a formalized process to document and communicate restrictions on internal auditors from assessing specific operations for which they were previously responsible. In addition, internal audit staff attended mandatory ethics training sessions.

GAO Closure Date: 12/15/2023


Recommendation #9: Pending Closure

NeighborWorks America Chief Audit Executive in collaboration with the Audit Committee should develop and implement a formal continuous quality and assurance improvement program that includes periodic self-assessments and conducting an external assessment every five years to adhere to the International Standards for the Professional Practice of Internal Auditing on quality assurance and improvement programs.

Corrective Action

A formal continuous quality assurance and improvement was developed and implemented evidenced by the establishment of a Quality Assurance Improvement Program (QAIP) policy document. In addition, a quarterly report of periodic assessments to the Board/Audit Committee has been undertaken.

CohnReznick (an independent accounting firm) undertook an external assessment (Peer Review) to assess conformance with the Institute of Internal Auditors (IIA) Standards. A final Conformance Report was issued in September along with Opportunities for further improvement. Based on the IIA rating scale the NeighborWorks America Internal Audit conformance rating was “Generally Conforms” (the highest rating). See Rating scale below.

	“Generally Conforms” indicates that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards and the Code of Ethics.
	“Partially Conforms” indicates that minor deficiencies in practice are noted and are judged to deviate from the Standards and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
	“Does Not Conform” indicates that deficiencies in practice are judged to deviate from the Standards and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

This rating scale of “Generally Conforms” was scored on all forty-four attributes against which the internal audit function was assessed. Documentation to evidence and substantiate closure of this recommendation has been submitted to the GAO.

Target Date of Completion: 12/31/2024

Recommendation #10: CLOSED

NeighborWorks America Chief Audit Executive in collaboration with the Audit Committee should remove language from audit reports (starting with 2017) indicating that audits were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing until an external assessment has been conducted and an internal quality assessment and improvement program that includes periodic self-assessments has been formally implemented.

Corrective Action

Conformance language was removed as recommended from audit reports (starting with 2017). An external assessment has since been conducted and an internal Quality Assessment and Improvement Program (QAIP) that includes periodic self-assessments has been formally implemented. Beginning October 2024 Internal Audit Division will commence including the conformance language in its audit reports indicating that audits were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

GAO Closure Date: 03/6/2024

The GAO reports which contain the status on all other recommendations can be found on their [website](#).

NeighborWorks America Network Activities

The Organizational Assessment Division (OAD) evaluates organizational health through the PROMPT® dimensions, line of business analyses and audit reviews. The PROMPT® framework assesses organizational health, risk, performance, and capacity.

PROMPT® is the acronym for Production & Program Services, Resource Management & Financial Management, Organizational Management & Board Governance, Management- Staffing & Personnel, Planning, Technical Operating & Compliance Systems.

Likewise, the PRO assessment, modeled after the more comprehensive PROMPT® Assessment, is a condensed evaluation focusing on program performance, financial management, and board governance. PRO refers to the first three categories of the PROMPT assessment framework. PRO assessments are conducted remotely and occur between an organization's PROMPT® assessments which are conducted on approximately a 48-month cycle. They utilize the same framework and performance metrics as PROMPT® reviews. Organizations are held to the same performance standards regardless of the assessment type. Outside of the PROMPT® and PRO reviews, each Network Organization and grantee receives an annual review of their audited financials.

The NeighborWorks America Network includes some of the best community development and housing organizations in the country comprising nearly 250 nonprofit organizations across the United States, including the District of Columbia and Puerto Rico.

Currently, the PROMPT® and PRO assessments including audit analyses are conducted to ensure effective financial management controls, appropriate governance, and oversight of risk management. Also, each Network Organization is required to have established board-approved whistleblower policies.

The table below summarizes the oversight activities conducted for the referenced period of this report.

July 1, 2024 – December 31, 2024

Review Type	Number of Reviews	Fraud/Whistleblower Findings
PROMPT®	15 assessments conducted	Two fraud cases were reported. See details below*.
PRO	26 assessments conducted	None to report
Financial Analyses of Network Organizations (who did not receive a PROMPT® or PRO assessment during the calendar year)	96 financial analyses completed	None to report
Grantee Financial Analyses (non-network)	21 financial analyses completed	None to report

*Hispanic Association of Contractors and Enterprises, Inc. (HACE) - Assessment Date: September 23, 2024

HACE reported to the NeighborWorks America Senior Manager for Assessment who oversaw the PROMPT assessment, that it was the victim of a cybercrime that occurred in April/May 2024. The organization received falsified bank wire instructions via email from an individual posing as the general contractor. After verifying the accuracy of the payment request and the amounts and verifying the work was complete, HACE wired a \$409,000 payment, from a project principally funded by Low Income Housing Tax Credits (LIHTC) and state funds and did not include the use of NeighborWorks America funding, to what it thought was the general contractor but was instead the cyber-criminal. HACE reported the crime to the local authorities and the FBI and is working with an attorney to recoup the lost funds. The organization has taken several measures to prevent this from happening again, which include requiring contractors to carry cybercrime insurance, purchasing cybercrime insurance itself, and ensuring it has checks and balances in place when processing future payments.

*Mid-City Redevelopment Alliance (MCRA) - Assessment Date: September 9, 2024

MCRA reported to the NeighborWorks America Senior Manager for Assessment who oversaw the PROMPT assessment that there was misappropriation of a non-NeighborWorks America grant. MCRA received an Environmental Protection Agency (EPA) grant from Louisiana State University (LSU). The organization's current Executive Director (ED) discovered that the grant funds were allocated toward the Community Building and Engagement (CB&E) manager's salary and \$15,000 went to a small business that had ties to the CB&E manager. Further, the ED found that the small business had not been formed as a legitimate business. The ED reported the conflict of interest to the board and the executive committee and contacted LSU to return the funds. LSU did not want the funds returned and wanted to instead honor the contract with the small business. MCRA chose to return the funds to LSU.

Per the Investment Grant Agreement (IGA) that each NeighborWorks America network organization signs, and the Non-Network Grant agreement signed by grantees, organizations are required to report incidents of fraud to NeighborWorks America. In FY25, the Organizational Assessment Division (OAD) is working with the NeighborWorks America Office of General Counsel to add further actions to our process and agreements to enhance our oversight of fraud and whistleblower discovery and reporting.

For both instances cited above, no funds from NeighborWorks America were affected

Training and Outreach Activities

The Internal Audit Division participated in a number of training exercises during this period:

- (i) The Government Accountability Office (GAO) Center for Audit Excellence (CAE) virtual training course on Message Development & Report Writing
- (ii) Practical Ethics for Professional Auditors conducted by the IIA Washington DC Chapter
- (iii) Global Internal Audit Standards Readiness Training Workshop

Conclusion

The NeighborWorks America Internal Audit Division remains committed to utilizing a systemic and disciplined approach to promote efficiency and effectiveness in the operations of the organization. We will continue to conduct audits, investigations, and other activities to ensure accountability and to protect against waste, fraud, and abuse.

Contact Information

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Certification

I certify that this report is accurate and complete.

Frederick Udochi

Frederick Udochi
Chief Audit Executive