

Internal Audit Department  
NeighborWorks® America

# **Audit Review of NFMC Program Wind-Down Activities**

Project Number: NI.NFMCWNDN.2018

# **Audit Review of NFMC Wind-Down Activities**

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September 27, 2018

To: NeighborWorks America Audit Committee

Subject: **Audit Review of NFMC Wind-Down Activities**

Attached is our draft audit report for the **Audit Review of the NFMC Wind-Down Activities**. Please contact me with any questions you might have.

Thank you.

Frederick Udochi  
Chief Audit Executive

Attachment

cc: T. Chabolla  
R. Bond  
R. Simmons  
M. Rodriguez

## Function Responsibility and Internal Control Assessment Audit Review of NFMC Wind-Down Activities

Business Function Responsibility	Report Date	Period Covered
National Initiatives	September 27, 2018	October 1, 2017 Through August 18, 2018
<b>Assessment of Internal Control Structure</b>		
Effectiveness and Efficiency of Operations		<b>Generally Effective<sup>1</sup></b>
Reliability of Financial Reporting		<b>Not Applicable</b>
Compliance with Applicable Laws and Regulations		<b>Generally Effective</b>

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

<sup>1</sup> **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
<b>Observation 1</b> <p>We identified one transaction for the NFMC Wind-Down Budget that was not properly classified and recorded. Specifically, \$16K in NFMC non-Wind-Down expenses was classified and recorded as a Wind-Down expense.</p> <p>The requirements of the NFMC Program are that certain costs should be recorded as regular program costs; and others as Wind-Down costs once the wind-down period began. The accounting treatment for the aforementioned costs is not in compliance with NFMC Program requirements.</p> <ul style="list-style-type: none"> <li>The requirements of the NFMC Program mandate that certain costs should be recorded as program</li> </ul>	<b>Yes</b>	<b>Recommendation 1</b> <p>We recommend that the Finance Department reclassify the costs from the Wind Down budget to the regular NFMC project code:</p> <ol style="list-style-type: none"> <li>\$16K in NFMC Program costs needs to be reclassified from the Wind-Down project code to the regular NFMC project code.</li> <li>That the funds be included as funds to be returned from the regular NFMC program balance at the end of the wind down period.</li> </ol>	<b>Yes</b>	NFMC Management agrees with the Recommendation. As part of the NFMC Internal Controls the department conducts a monthly reconciliation of NFMC Program and NFMC Wind-down balances with NeighborWorks Finance division to reconcile recaptured and de-obligated funds. NFMC will continue this process until the end of the wind-down period.	Finance reclassified the \$16k July, 2018.	Internal Audit accepts Management's response

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>costs; and other Wind-Down costs are recorded, tracked and monitored separately from regular program costs</p> <p><b>Risk Rating:</b> (b) (5)</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.

<b>Management Responses to The Audit Review of:  NFMC Wind-Down Activities</b>		
<b># Of Responses</b>	<b>Response</b>	<b>Recommendation #</b>
1	Agreement with the recommendation(s)	1
	Disagreement with the recommendation(s)	

## Background

The National Foreclosure Mitigation Counseling Program (NFMC) is a special program appropriated by Congress in the aftermath of the mortgage crisis here in the United States. In 2008, NeighborWorks was awarded an initial grant in the amount of \$180 Million dollars, however the program grew to an estimated amount of \$856 Million as of our audit report date. The NFMC Program is designed to support the provision of foreclosure intervention counseling services on a short-term basis by HUD-Approved Housing Counseling Intermediaries, State Housing Finance Agencies (HFAs), NeighborWorks organizations (NWOs) and other housing counseling agencies with whom they contract. Specifically, the NFMC Program provides grants and training opportunities that support an expansion of foreclosure counseling services across the country by assisting families facing default and foreclosure.

Funds were awarded to applicants with demonstrated experience in foreclosure intervention and loss mitigation counseling. The statutory authority for the NFMC Program mandates that the majority of the awarded funds be prioritized for use in “areas of greatest need.” These were defined as areas experiencing a high rate of defaults, foreclosures and/or subsequent adverse effects of the foreclosure crisis. Grantees of NFMC Program-funded foreclosure intervention counseling must, by existing statute, be owner-occupants of single-family (one- to four-unit) properties with mortgages in default or in danger of default.

Wind-down activities for the NFMC Program began in fiscal year 2018 (October 1, 2017) and is expected to take between 15 – 18 months to complete. Approximately \$4 Million dollars have been budgeted for the Wind-down activities for the NFMC Program.

## Objective

The objective of this review was to obtain reasonable assurance that the wind-down activities complied with the Wind-down plan.

## Scope

1. **Program Governance** – review of governance components of NFMC Wind-Down activities, including the completeness and accuracy of a Wind-down plan; policies and procedures to govern the wind-down process, etc.
2. **Risk Management/Internal Controls over efficiency / effectiveness of the program** – perform an evaluation of the internal controls surrounding the Wind-down process.
3. **Reliability of Financial & Management Reporting** - evaluate controls surrounding both financial and management reporting of Wind-down activities. Specific transactions to be reviewed include Grant disbursements, Recaptures & De-Obligations, and re-distributions.
4. **Compliance with Laws & Regulations / Grant Agreement / Policies & Procedures** – evaluate the compliance with legislative and program requirements during the Wind-down period; and adherence to internal NeighborWorks policies and procedures.

## Scope Limitation

- Control testing of other business processes other than NFMC grant-related disbursements was limited to the test of design that was performed as part of the process walkthroughs.



## **Methodology**

The primary sampling applications that will be used in the audit is statistical sampling, especially with those audit procedures that will entail the testing of business transactions. Internal Audit will employ statistical sampling methodology using [www.randomizer.org](http://www.randomizer.org) to select random testing samples. In selected other instances, we will employ stratified statistical sampling, which divides the audit population into “strata” based upon a unique characteristic (e.g. \$ value of the transaction) and the weighted average of the transaction to the sub-population).

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

## **Observations and Recommendations**

### **Observation 1**

We identified one transaction for the NFMC Wind-Down Budget that was not properly classified and recorded. Specifically \$16K in NFMC non-Wind-Down expenses was classified and recorded as a Wind-Down expense.

The requirements of the NFMC Program are that certain costs should be recorded as regular program costs; and others as Wind-Down costs once the wind-down period began. The accounting treatment for the aforementioned cost is not in compliance with NFMC Program requirements.

- The requirements of the NFMC Program mandate that certain costs should be recorded as program costs; and other Wind-Down costs are recorded, tracked and monitored separately from regular program costs.

The root cause of this error appears to be an accounting error for the \$16K. In a memo dated June 07, 2018 titled “Brand New Day De-Obligation of funds Round 6 final Disbursement due to Grantee Disaffiliation and Subsequent cease of Operations” to the NFMC File these funds were determined to be de-obligated funds. As a result they were scheduled to be returned to the United States Treasury at the end of the wind down period as part of the regular NFMC fund balance. The Finance function has ultimate responsibility for ensuring that transactions are accounted for, classified and recorded appropriately. The effect of this error not being corrected could result in a misstatement.

### **Recommendation 1**

We recommend that the Finance Department reclassify the costs from the Wind Down budget to the regular NFMC project code:

1. \$16K in NFMC Program costs needs to be reclassified from the Wind-Down project code to the regular NFMC project code.
2. That the funds be included as funds to be returned from the regular NFMC program balance at the end of the wind down period.

Table I: Summary of NFMC Actual Expenditures as of June 30, 2018

Description	Sum of Amount	%
[-] Expenses	\$ 100,433.73	11%
+ Conferences and Workshops	9,963.00	
+ Other OPEX	105,983.23	
+ Grant Expenses	(16,012.50)	
+ Fringe Benefits	500.00	
[-] Professional Services	\$ 361,613.68	39%
+ Professional Service Fees	361,613.68	
+ Revenue	\$ 743,912.97	
[-] Travel	\$ 25,096.38	3%
+ Employee Travel	10,383.13	
+ Grant Expenses - Travel	14,713.25	
[-] Compensation	\$ 441,881.60	48%
+ Employee Salaries	410,337.16	
+ Employee Benefits	31,544.44	
Grand Total	\$ 1,672,938.36	
Less: Appropriations Revenue:	(743,912.97)	
Total NWA Operating Budget	\$ 929,025.39	100%
Total NWA Operating Budget - Per Audit	\$ 929,025.39	
Total NWA Operating Budget - Per NFMC	(945,037.99)	
Variance	\$ (16,012.60)	Exception

The rest of the report provides a detailed summary of the tests and procedures undertaken to obtain verification and assurances on the wind down protocol.

### Program Governance

We reviewed the overall governance of the NFMC program, which consisted of the following governance elements:

1. Program Wind-Down Strategy—did NFMC Program management have a formal plan to administer to the wind-down activities of the program?
2. Policies and Procedures—did NFMC Program management have documented policies and procedures to administer to the program
3. Risk Management—did NFMC Program management have a risk-based approach for completing the wind-down activities?
4. Resource Management—did NFMC Program management have a plan to manage resources during the wind-down period?
5. Performance Management—did NFMC Program management have performance metrics and KPIs to monitor the wind-down activities?

6. Program Staff Development / Training—did NFMC Program management have staff development (internal NeighborWorks’ personnel) or Training activities for the wind-down program?
7. Communication Protocol—did NFMC Program management have a formal communication protocol for completing the wind-down activities?

The outcome of our review revealed that the controls administering to the overall governance activities of the NFMC program were effective. Wind-down activities of the NFMC Program were governed by a formal wind-down plan. The plan consisted of activities that needed to be completed as part of the close-out of the NFMC program. All close-out/wind-down activities were recorded, classified, and prioritized. We also determined from our review that policies and procedures exist to administer to the wind-down activities of the program. Although the Wind-Down Plan did not have a formal risk management approach to scheduling wind-down activities, all such activities were driven by a time-driven schedule based upon the planned wind-down period of October 1, 2017 through December 31, 2018 (with residual program activities continuing on through FY 2021). Our review further revealed that NFMC management did have a plan to manage the attrition of program personnel during the wind-down period. Also, key performance indicators (KPIs) and metrics were developed and implemented to monitor the wind-down of activities. As an illustrated example, the NFMC Wind-Down Budget to Actuals review, which is performed on a weekly basis, is used to track and monitor the cumulative expenditures against the overall budgeted amount of \$4 Million. The cumulative amount expended through our audit period of June 30, 2018 was approximately \$929K or 23% of budgeted amounts. Furthermore, robust training courses were provided to the counselors to administer to their wind-down activities.

### **Grant Disbursements**

We reviewed grant disbursements for the NFMC Program that originated from Round 10 and Supplemental I Funding. Specifically, we reviewed NFMC grant disbursement transactions during our audit period of October 1, 2017 and June 30, 2018. The audit population consisted of 84 transactions during the audit period, from which we randomly selected thirty transactions for testing.

Our audit procedures consisted of testing the following internal control attributes:

1. Grant Disbursement packages were reviewed and approved by NFMC program management prior to submission to Finance for processing and disbursement.
2. Grant Disbursements were reviewed and approved by Finance prior to disbursement of the payment.
3. Grant disbursements were complete and mathematically accurate.
4. Grant disbursements were completely and accurately recorded in NetSuite, NeighborWorks’ accounting system.
5. Grant disbursements complied with the terms of the grant agreement (e.g. Grant Disbursement Schedule or other documentation).

The results of our audit procedures indicated that the internal controls surrounding the authorization, recording, reporting, and regulatory compliance of NFMC grant disbursements were operating effectively.

**Note:** See Table I, Summary of Selected Round 10 and Supplemental I Grant Disbursements in Appendix A for a summary of the grant disbursement transactions reviewed.

### **Grant Recaptures, De-Obligations, Re-Distributions, and Return to Treasury**

During the audit, we also reviewed grant recaptures, grant de-obligations, the subsequent redistributions of recaptured amounts, and amounts that were returned to the U.S. Treasury. Our review of these transactions revealed that the audit population of grant recaptures consisted of 43 transactions during our audit period. We randomly selected 14 of the transactions for testing, which consisted of evaluating the following control attributes:

1. Authorization - recapture Notification Memo was appropriately approved
2. Completeness and Accuracy - recapture amounts agree to supporting docs.
3. Recording & Reporting - recapture amounts are properly recorded and reported in GL
4. Valuation - period amounts and cumulative amounts are properly valued
5. Compliance - recapture transactions comply with grant agreements; and grantee returns of the funds to NFMC (in a timely manner).

In addition, we also reviewed grant de-obligations during our audit period, which consisted of only one transaction. Our review of grant recaptures and grant de-obligations did not reveal any testing exceptions and therefore, the internal controls were generally effective. Our review of this area also indicated that there were neither grant re-distributions nor returns to Treasury during our audit period. It is our understanding that since the wind-down activities are still in progress, there will not be any grant re-distributions. In addition, any returns to Treasury will not be identified until the program activities are 100% complete and the final reconciliation of cumulative grant activity completed.

### **Program Operating Expenses**

Our review of the design of internal controls over operating expenses for the NFMC Program indicated that the controls over the various administrative processes were operating as designed. We reviewed operating expenses for the NFMC program for our audit period. Our review consisted of the review of the design of internal controls during the Walkthrough of the various business processes for NeighborWorks' Finance and operations. Among the back-office processes for which we conducted walkthroughs include:

1. Human Resources—Employee Enrollment, Employee Transfer, Employee Termination, and Enrollment into Payroll.
2. Payroll—time recording and payroll distribution.
3. Procurement—Purchase Requisition, Request to Quote, Request for Proposal, Proposal Evaluation, Vendor Selection, and P.O. Creation.
4. Finance—Disbursement authorization, Disbursement Recording and Reporting, and Cash Disbursement.

## **Finance Administration**

Internal Audit reviewed finance administrative activities as part of the NFMC Program wind-down activities in order to ensure that Finance is informed of the vendors and the residual payments that will be required after the program ends. The objective of our review of this area was to determine:

1. Whether Finance is aware of any remaining program liability after the program ends and throughout the retention period.
2. Whether all vendor receipts and invoices are available and stored safely; and will be available throughout the record retention period; and
3. Whether any financial reports are due to OMB and/or other agencies.

The scope of our review consisted of interviews with NFMC and Finance management, review of documentation provided by NFMC, management reports, and email communications. The outcome of our review indicated that there have been ongoing communications between NFMC program management and Finance to coordinate the recording and payments of all outstanding liabilities of the program through the document retention period. All liabilities have been recorded by NFMC program management and communicated to Finance to ensure timely payment. In addition, all vendor receipts and invoices for wind-down activities are available and are stored on an internal shared drive. We also determined that the final program report, *National Foreclosure Mitigation Counseling Program's Final Congressional Update (July 13, 2018)*, which was prepared by the Urban Institute, was recently finalized and submitted to OMB and other stakeholders pursuant to program requirements.

## **CounselorMax**

CounselorMax (hereinafter "CMax" or "the system") is a web-based, client management business application that is used to assist homeownership counselors in the administering of their duties related to the NFMC Program. Internal Audit reviewed the internal controls related to the wind-down activities of the CounselorMax business application. In particular, the objective of our review was to determine the following:

1. The CMax team communicated a timeline to end users regarding NeighborWorks' termination of the subsidized pricing for use of the CMax system.
2. Ensure whether the CMax team communicated the subscription pricing plan to NFMC grantees who are no longer receiving subsidies from their CMax subscription.
3. CMax records within the system will be archived throughout the record retention period.
4. A post-program wind-down plan exists and administers to the NFMC program information that is within the CMax system.

Our review of the internal controls within this area indicated that NFMC program management issued communications to all NFMC grantees in June 2017 informing them of the termination of federal appropriations for the NFMC Program and therefore, the commencement of the wind-down activities. Subsequent communications were also issued to grantees notifying them of the new subscription pricing plan (without the subsidy from NeighborWorks America) for Round 10 and Supplemental Round I grant recipients. We also determined that a wind-down plan for CMax system activities was in existence. This consisted of events to archive the CMAX information throughout

the agreed-upon records retention period. In conclusion, the internal controls surrounding the administration and archiving of CMax information are operating effectively pursuant to the activities outlined in the NFMC Wind-Down plan.

## **Record Retention & Data Security Requirements**

We reviewed the record retention and data security requirements of the NFMC program to ensure that all NFMC program stakeholders complied with the record retention requirements of the program and protected program documentation and close out for all necessary accounts. Also, regarding the data security requirements, our objective was to ensure adequate data security over PII of the NFMC program data for the agreed upon mandatory retention period; and that the data security protocol applied to NeighborWorks' personnel, grantees and third-party service providers, complied with applicable laws and regulations, NeighborWorks policies and procedures, and NFMC program requirements.

Our audit procedures consisted of the following:

1. NeighborWorks has an established Record Retention policy
2. NeighborWorks has established Data Security Standards
3. NFMC has adequate record retention and data security protocol for all Legal Documents
4. NFMC Program had approved, executed contract(s) with the 3rd party vendors
5. Record Retention standards were reflected in 3rd Party contracts
6. Data Security standards were reflected in 3rd Party contracts
7. SOC 2 Reports existed for 3rd Party vendors

The results of our review of this area indicated that the internal controls governing internal NFMC and external vendor-provided services to meet record retention requirements and data security standards were generally effective. Specifically, our review of internal NeighborWorks' policies and procedures indicated that such governance documents existed and were operational. In addition, our review of selected third-party contracts revealed that NeighborWorks had approved, executed contracts in force with the vendors. Finally, the record retention and data security standards flowed down to the contractual agreements with third party vendors as evidenced by the inclusion of record retention and data security requirement clauses in the third-party agreements between NeighborWorks and the vendors.

## **Administrative Accounts**

The NFMC program had certain administrative activities that were an integral component of the program. The administrative activities were recorded in the following accounts: (1) FedEx; (2) Staples; (3) Survey Monkey; (4) Hightail; and (5) Lexis-Nexis. These accounts were governed by contractual agreements. Our testing objectives for these accounts was to ensure that NFMC program management had developed a plan for the disposition of these accounts as the program continued its wind-down activities. Our review of these accounts indicated that the first four accounts, including FedEx, Staples, Survey Monkey, and Hightail accounts were being transferred to Project Reinvest. Regarding the Lexis-Nexis Account, the original plan per the Wind-Down Matrix was to terminate that contract by September 30, 2018, however the date per the contract was December 31, 2018. Our reviewed correspondence between NFMC Program Management and the vendor indicated that the

contract will be terminated as of 2018 calendar year end or December 31, 2018. In conclusion, the controls surrounding the disposition of the administrative accounts are operating effectively.

## APPENDIX A. Summary of Selected Round 10 and Supplemental I Grant Disbursements

Table II—Summary of Selected Round 10 and Supplemental I Grant Disbursements:

CTRL #	Grantee Name	Amount
1	8220-Coalition for a Better Acre	\$ 7,488.00
2	5060-NATIONAL ASSOCIATION OF REAL ESTATE BROKERS-INVESTMENT DIVISION, INC	\$ 69,380.10
3	5061-NATIONAL FOUNDATION FOR CREDIT COUNSELING, INC.	\$ 129,642.40
4	8109-NeighborWorks Southern Mass	\$ 15,372.00
5	5071-NUEVA ESPERANZA, INC.	\$ 24,460.20
6	5025-Nevada Housing Division	\$ 4,738.69
7	8215-Community Service Programs of West Alabama, Inc.	\$ 625.50
8	8011-Neighborhood Housing Services of Chicago, Inc.	\$ 4,225.50
9	8220-Coalition for a Better Acre	\$ 936.00
10	5014-Iowa Finance Authority	\$ 78,790.80
11	8333-Lawrence CommunityWorks, Inc.	\$ 625.50
12	5076-Neighborhood Stabilization Corporation	\$ 93,645.31
13	5035-Pennsylvania Housing Finance Agency	\$ 62,831.66
14	8538-Wealth Watchers, Inc.	\$ 48,276.00
15	8109-NeighborWorks Southern Mass	\$ 1,921.50
16	8285-NeighborWorks Orange County	\$ 625.50
17	5020-Minnesota Housing	\$ 98,545.65
18	5062-NATIONAL URBAN LEAGUE	\$ 44,057.89
19	8064-Neighborhood Housing Services of New Britain, Inc.	\$ 625.50
20	5005-Connecticut Housing Finance Authority	\$ 2,006.93
21	Neighborhood Housing Services of Hamilton, Inc.	\$ 625.50
22	8019-Trellis	\$ 625.50
23	8343-Corporation to Develop Communities of Tampa	\$ 625.50
24	8285-NeighborWorks Orange County	\$ 625.50
25	5059-MONEY MANAGEMENT INTERNATIONAL INC.	\$ 25,069.80
26	8224-Nuestra Comunidad Development Corp.	\$ 625.50
27	8327-Avenue Community Development Corporation	\$ 742.50
28	8176-Neighborhood Partnership Housing Services	\$ 625.50
29	8257-Kennebec Valley Community Action Program Housing Services	\$ 846.00
30	8223-Neighborhood of Affordable Housing, Inc.	\$ 1,489.50