

Internal Audit
NeighborWorks® America

Audit Review of
External Business Relationships:
National NeighborWorks
Association (NNA)

Project Number: NWA.CORP.NNA.2017

Audit Review of External Business Relationships: National NeighborWorks Association.

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July 11, 2017

To: NeighborWorks America Audit Committee

Subject: External Business Relationships: National NeighborWorks Association

Enclosed is our report for the audit review of the National NeighborWorks Association (NNA). Please contact me with any questions you might have. Thank you.

Frederick Udochi
Chief Audit Executive

Attachment

cc: J. Bryson
R. Bond
T. Chabolla
R. Simmons

Function Responsibility and Internal Control Assessment
Audit Review of External Business Relationships: –National NeighborWorks Association

Business Function Responsibility	Report Date	Period Covered
Public Policy & Legislative Affairs	July 11, 2017	2013 through 2015
Assessment of Internal Control Structure		
Effectiveness and Efficiency of Operations	(b) (5)	
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
Observation No. 1 Misalignment Between Grant Agreement and Corporate Policy Section IV of the 2013 grant agreement requires that: <i>NeighborWorks America will conduct analysis and reviews of NNA's operations, programmatic activity and financial performance on an as needed basis, but not less than every three years.</i> The grant agreements for 2014 and 2015 each have riders attached that state: <i>Since the Grantee is receiving a one-time grant greater than \$300,000 or three consecutive fiscal years of grants totaling greater than \$300,000 (the "Trigger Event") Grantee</i>	Yes	Recommendation No. 1 Alignment of Grant Agreements and Current Policies Internal Audit recommends that Management align the language in grant agreements and the grant policy as it relates to programmatic reviews and the respective funding sources.	Yes	Management agrees on the need to better align the grant agreements and grant policies with regard to grants funded with Source 7 funds (unrestricted general support and other non-federal revenue). Management will ensure that systems and procedures are in place such that grants made with Source 7 funds that require onsite or offsite reviews are flagged on an annual basis. Any changes that are required to be made to the grants policy will be made as part of the	June 30, 2018 This would align with the overall review of the current grants policy.	IA 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><i>shall be subject to an off-site assessment measuring Grantee progress against agreed upon (i) deliverables, (ii) resources and financial management, and (iii) organizational management and board governance. The assessment shall be conducted within one year of the Trigger Event.</i></p> <p>In its current state, the policy that details how and when program reviews are carried out does not include grants made to organizations funded from Source 7 referred to as "Outside Funds". These are non-appropriated funds obtained externally. The reporting that the Organizational Assessment division (OAD) uses to determine scheduling of program reviews, is in alignment with policy, and is also exclusive of organizations that receive</p>				overall review of the grants policy to be made in FY18.		

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>source 7 funds. This may have been a contributing factor as to why the misalignment was not previously identified. Internal Audit confirmed that The NNA Fund grants are budgeted to and paid out of Source 7 Funds.</p> <p>The misalignment between the grant agreements and the corporate policy increases the risk of the program reviews not being completed. The program review is an additional control put in place to assist NeighborWorks America in complying with regulations over grants that are distributed.</p> <p>Risk Rating: (b) (5)</p>						

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
Observation No. 2 Lack of Substantive Program Reviews The lack of program reviews had also been noted in a prior FY 2008 internal audit report. While it was observed that financial analysis was completed for each year in review, Internal Audit was unable to obtain evidence that a program/off-site review was performed per the requirement. The financial analysis includes a review of several factors including financial statement presentation; auditor communications; assets and liabilities; revenues and expenses; and liquidity, leverage, and cash flow. The purpose of the financial analysis is to make a determination about risk which is outlined in the conclusion of the financial	Yes	Recommendation No. 2 Conduct Programs Reviews for the NNA Fund and Any Other Sub Grantee Internal Audit recommends that upon the receipt of audited financial statements from The NNA Fund and NNA, the Organizational Assessment division (OAD) should schedule a program review for The NNA Fund and NNA. This could be undertaken either as an off-site or on-site review and implement plans to place such reviews on a scheduled term in accordance with the grant agreement.	Yes	Management concurs that a program review for the NNA Fund and NNA should be conducted in FY18.	Sept 30, 2018 This completion date will enable the offsite review (per the requirements from the FY17 grants letter) to occur within 12 months of the grant award and will allow sufficient time to elapse so that grant deliverable can be completed or in progress.	IA 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>analysis. Program reviews also look to make a determination about risk, however the scope is expanded beyond the financial statements and consider four areas of operation which include production and program services; resource management; financial management; and organizational management and board governance. The PROMPT Assessment tool is used in the program reviews and is designed to assess both organizational capacity and organizational risk. It was noted that the primary focus of the Off-Site PRO Assessment tool is organizational risk, however, capacity is still a consideration.</p> <p>NNA is classified as a 501(c) (6) organization and is not subject to the same lobbying</p>						

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>restrictions as NeighborWorks America. Program reviews would allow NeighborWorks to actively monitor the risk associated with the external business relationship between NeighborWorks America, NNA, and The NNA Fund. Failure to effectively monitor and manage these business relationships could result in harm to NeighborWorks reputation, additional scrutiny, and/or a decrease in core appropriations.</p> <p>Risk Rating: (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.

Management Responses to The Audit Review of:		
External Business Relationships – National NeighborWorks Association		
# Of Responses	Response	Recommendation #
2	Agreement with the recommendation(s)	2
	Disagreement with the recommendation(s)	

Background

Internal audit routinely carries out audit reviews of the Corporation's external business relationships (EBR's) and as part of that practice the National NeighborWorks Association (NNA) was scheduled for a review this fiscal year.

NeighborWorks America provides funding to the NNA Fund, a section 501 (c) 3 organization, in the form of grants annually and the NNA Fund makes contributions to the National Neighborhood Housing Network Corporation, d/b/a National NeighborWorks Association (NNA), a section 501 (c)(6) organization. The NNA Fund has been legally determined to be able to sub-grant funds it has received from NeighborWorks America to NNA as long as those funds are not used for lobbying, satisfies the specific grant rules and that the amount of the grant is less than NNA's non-lobbying budget if any in existence. NNA is classified as a 501(c) (6) organization, it is not subject to the same lobbying restrictions as a 501(c) (3). 501(c)(6) organizations may issue advocacy (that does not constitute political campaign intervention) and engage in lobbying without jeopardizing its tax exempt status provided that such activities are related to the organization's exempt purpose. The NNA Fund and NNA both reported on their Forms 990 that their organizations have not engaged in direct or indirect political campaign activities.

NeighborWorks America is a 501(c) (3) public charity and as such, is subject to restrictions on its lobbying and political campaign activities. These restrictions provide that no substantial part of the activities of the organization may constitute carrying on propaganda or otherwise attempting to influence legislation. There is also language in NeighborWorks' enabling legislation that restricts the corporation from contributing to, or otherwise supporting, any political party or candidate for elective office. As a result it is of importance to ensure that funds provided by NeighborWorks are not in any way used to for restricted purposes.

Objective

The objective of this review was to obtain reasonable assurance:

- That funds provided to The NNA Fund were used only for their intended purpose as prescribed by NeighborWorks America.
- That funds contributed to National NeighborWorks Association (NNA) were also not used for any restricted purposes.

Scope

Internal Audit conducted a review of the grants awarded to The NNA Fund during fiscal years 2013, 2014, and 2015 and the related expenditures of National NeighborWorks Association (NNA). This review was essentially limited to a financial review based on audited financial statements in question and request for documentation to verify the use of grant funds provided by NeighborWorks America.

Methodology

The observations and recommendations contained in a prior FY2008 report were reviewed as part of the review approach. For the years 2013-2015, Internal Audit requested and reviewed Form 990 for both the NNA Fund and NNA, the request for funding and the corresponding proposed budget that was submitted as a part of the application process, Grant Agreements, NNA and NNA Fund combined audited financial statements, Use and Accomplishment Letters, and the Use of Funds Spreadsheets. Two memos that were written detailing the relationship between NNA and the NNA Fund were also obtained and reviewed. For each fiscal year being reviewed, a sample of expenses was selected for detailed testing and then compared to supporting documentation to determine if the expenditures were in compliance with the grant agreements. Below are the observations and recommendations that resulted from the testing performed.

Observations and Recommendations

Observation 1 – Misalignment between Grant Agreement and Corporate Policy

Section IV of the 2013 grant agreement requires that:

NeighborWorks America will conduct analysis and reviews of NNA's operations, programmatic activity and financial performance on an as needed basis, but not less than every three years.

The grant agreements for 2014 and 2015 each have riders attached that state:

Since the Grantee is receiving a one-time grant greater than \$300,000 or three consecutive fiscal years of grants totaling greater than \$300,000 (the "Trigger Event") Grantee shall be subject to an off-site assessment measuring Grantee progress against agreed upon (i) deliverables, (ii) resources and financial management, and (iii) organizational management and board governance. The assessment shall be conducted within one year of the Trigger Event.

In its current state, the policy that details how and when program reviews are carried out does not include grants made to organizations funded from Source 7 referred to as "Outside Funds".

These are non-appropriated funds obtained externally. The reporting that the Organizational Assessment division (OAD) uses to determine scheduling of program reviews, is in alignment with policy, and is also exclusive of organizations that receive source 7 funds. This may have been a contributing factor as to why the misalignment was not previously identified. Internal Audit confirmed that The NNA Fund grants are budgeted to and paid out of Source 7 Funds.

The misalignment between the grant agreements and the corporate policy increases the risk of the program reviews not being completed.

Recommendation 1 – Alignment of Grant Agreements and Current Policies

Internal Audit recommends that Management align the language in grant agreements and the grant policy as it relates to programmatic reviews and the respective funding sources.

Observation 2 – Lack of Substantive Program Reviews

The lack of program reviews had also been noted in a prior FY 2008 internal audit report. While it was observed that financial analysis was completed for each year in review, Internal Audit was

unable to obtain evidence that a program/off-site review was performed per the requirement. The financial analysis includes a review of several factors including financial statement presentation; auditor communications; assets and liabilities; revenues and expenses; and liquidity, leverage, and cash flow. The purpose of the financial analysis is to make a determination about risk which is outlined in the conclusion of the financial analysis. Program reviews also look to make a determination about risk, however the scope is expanded beyond the financial statements and consider four areas of operation which include production and program services; resource management; financial management; and organizational management and board governance. The PROMPT Assessment tool is used in the program reviews and is designed to assess both organizational capacity and organizational risk. It was noted that the primary focus of the Off-Site PRO Assessment tool is organizational risk, however, capacity is still a consideration.

NNA is classified as a 501(c) (6) organization and is not subject to the same lobbying restrictions as NeighborWorks America. Program reviews would allow NeighborWorks to actively monitor the risk associated with the external business relationship between NeighborWorks America, NNA, and The NNA Fund. Failure to effectively monitor and manage these business relationships could result in harm to NeighborWorks reputation, additional scrutiny, and/or a decrease in core appropriations.

Recommendation 2 – Conduct Programs Reviews for the NNA Fund and Any Other Sub Grantee

Internal Audit recommends that upon the receipt of audited financial statements from The NNA Fund and NNA, the Organizational Assessment division (OAD) should schedule a program review for The NNA Fund and NNA. This could be undertaken either as an off-site or on-site review and implement plans to place such reviews on a scheduled term in accordance with the grant agreement.

Conclusion

The audit review of the External Business Relationship – National NeighborWorks Association, found that funds granted to the NNA Funds appear to be used for their intended purpose as prescribed by NeighborWorks America. Internal Audit did not note any irregularities in its review of the documentation that was provided as it related to expenses, the financial statements, or the 990 forms. Inconsistencies between the grant agreement and policy with regard to the programmatic reviews were identified. Specifically, the grant agreements for the NNA Fund, an organization that receives outside funds, contained language that required program reviews while the policy governing program reviews does not include organizations that receive non-appropriated funds. It was also noted that no programmatic reviews have occurred despite previous audit finding recommending that these reviews occur.

Our interactions with The COO, PPLA, OAD, and NNA were collaborative and productive. We would like to extend our thanks to all involved for their cooperation and assistance during this review.