

NeighborWorks® America

Semiannual Report to Congress

for the Period October 1, 2025, through March 31, 2026

NeighborWorks® AMERICA

CREATING HOMES, BUILDING AMERICA

Message from the Chief Audit Executive

The NeighborWorks America Internal Audit Division has instituted this reporting activity of submitting semiannual reports to Congress by the Chief Audit Executive in accordance with the mandatory reporting periods of October 1 through March 31, and April 1 through September 30.

As a result, on behalf of the Internal Audit Division, I am pleased to present this report for the reporting period October 1, 2025, through March 31, 2026.

NeighborWorks America continues to operate in an increasingly complex and high-risk environment, coupled with heightened compliance and oversight expectations, delayed and uncertain funding streams, rising operating and construction costs due to inflation, and growing administrative burdens tied to audits, cybersecurity, and internal controls. Collectively, these conditions elevate financial, operational, and reputational risks, requiring stronger governance, robust internal controls, enhanced risk management, and proactive engagement with funders to ensure sustainability and mission continuity.

During this period, the NeighborWorks America Internal Audit Division remained committed to providing assurance on the efficiency and effectiveness of the Corporation's operations. Internal audits were performed in Procurement, Field Operations, and notably in the Information Technology space. These audit reviews continue to significantly strengthen governance oversight, risk identification, and organizational accountability.

The Internal Audit Division will continue to conduct independent audit activities, investigations, and ongoing monitoring to support effective internal controls, ensure accountability, and protect the Corporation against waste, fraud, and abuse.

We look forward to continuing our collaborative efforts with the Board of Directors, NeighborWorks America management, and staff in support of the Internal Audit Division's mission and mandate, and in fulfillment of our shared responsibility to uphold transparency, integrity, and stewardship of public resources.

Respectfully submitted,

Frederick Udochi

Frederick Udochi
Chief Audit Executive
NeighborWorks America

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Introduction

The Internal Audit Division (IAD) 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 IAD function: the Audit Committee Charter and the Internal Audit Charter. The IAD 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.

NeighborWorks America received a **clean audit with unmodified opinions** from its external auditors, CliftonLarsonAllen (CLA), on both the financial statement audit and the federal awards audit for the Fiscal Year 2025. 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 awards[1]. 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 audits[2].

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

Audit Reports Issued[3]

I. Audit Review of Cyber Attack Identification and Response (II)

The objective of this audit was to assess the current state and design of the NeighborWorks' incident response program. This was a follow-up review from an earlier report, Cyber Attack Identification and Response (I), issued earlier July 2024. ***Report issued 5/6/2025.***

Audit Recommendations

The status of these recommendations ranges from completed to various stages of completion and are all on track to meet their scheduled completion by September 30, 2026. The recommendations have been consolidated and summarized to be non-technical, non-specific, and outcome-oriented to avoid exposing sensitive security details while preserving governance intent. The audit recommendations covered the following items:

a. **Recovery Prioritization**
Strengthen recovery planning by clearly prioritizing critical systems and formalizing recovery procedures to support timely and orderly restoration following a cyber incident

b. **Backup Resilience**
Enhance the protection and independence of backup data to ensure organizational recovery capabilities remain effective even during sophisticated cyber events

c. **Incident Response Governance**
Clearly define incident response roles, responsibilities, and decision authorities across IT and non-IT functions, supported by training and governance structures

d. **Alignment of Recovery Objectives**
Align recovery time and data restoration objectives with realistic business needs and available recovery capabilities to ensure continuity expectations are achievable

e. **Incident Response Procedures**
Finalize and institutionalize core incident response procedures, including investigation, containment, training, and coordination—to ensure consistent execution during cyber events

f. **Data Protection Safeguards**
Ensure recovery data is protected through appropriate security measures to reduce the risk of unauthorized access or misuse

g. **Role Accountability**
Document designated individuals and alternates for key incident response roles to promote accountability and continuity during high-impact incidents

h. **Incident Documentation & Reporting**
Establish standardized documentation and reporting practices, including coordination with legal and regulatory functions, to support compliance and post-incident review

[3] These are audit reports completed after internal review and acceptance by the Board/Audit committee. Once the reports are officially issued upon acceptance by the Board/audit Committee, a comprehensive summary of observations and recommendations will be provided in this section.

i. **Incident Communications**
Implement structured internal and external communication protocols to ensure timely, secure, and coordinated information sharing during cyber incidents

II. Audit Review of Identity Access Management (Active Directory)

The objective of this audit was to assess the security of the NeighborWorks Active Directory environment, specifically evaluating access controls, privilege management, and compliance with applicable regulatory requirements. ***Report issued 8/19/2025.***

Audit Recommendations

The status of these recommendations ranges from completed to various stages of completion and are all on track to meet their scheduled completion by September 30, 2026. The recommendations have been consolidated and summarized to be non-technical, non-specific, and outcome-oriented to avoid exposing sensitive security details while preserving governance intent. The audit recommendations covered the following items:

a. **Privileged Access Governance**
Strengthening oversight of privileged accounts by formalizing access approval, review, and revocation processes to ensure access aligns with job responsibilities

b. **Least-Privilege Enforcement**
Reduce excessive or unnecessary system access by consistently applying the principle of least privilege across user and service accounts

c. **Account Lifecycle Management**
Improve processes for timely creation, modification, and removal of accounts to reduce the risk associated with inactive or outdated access

d. **Authentication and Password Controls**
Enhance authentication standards and enforcement mechanisms to ensure consistent protection of user identities

e. **Monitoring and Logging**
Improve monitoring and review of access-related activity to support early detection of unauthorized or anomalous behavior

f. **Configuration and Policy Consistency**
Standardize and enforce directory configurations and security policies to reduce inconsistencies across the environment

g. **Technical Debt and Legacy Systems**
Prioritize addressing legacy components within the identity environment to reduce security and operational risk

h. **Vulnerability Identification**
Establish a routine process to identify and assess potential weaknesses in the identity management environment

i. **Backup and Recovery Alignment**
Ensure identity services recovery planning is aligned with broader disaster recovery and business continuity objectives

j. Documentation and Accountability
Maintain clear documentation of access controls, responsibilities, and procedures to support accountability and auditability

III. Audit Review of Network Affiliations

The objective of this review was to obtain reasonable assurance that the affiliations policies and procedures support an effective and efficient diligence process for Network membership. ***Report issued 9/30/2025.***

Audit Recommendations

There were no observations or recommendations to this report. The audit concluded that the internal controls governing the affiliations process are generally effective, and the procedures in place support a robust and efficient due diligence process for admitting new members into the NeighborWorks Network.

Audit Reports Completed – Pending Final Internal Review -

The following audit projects and reports have been completed and are in various stages of audit review and finalization prior to acceptance by the Audit Committee/Board. A summary objective for each of the projects is provided for context.

I. Audit Review of the PRISM Post Implementation

The objective of this review was to assess the efficiency and effectiveness of the PRISM (Contract Management Application) business workflow, and to obtain reasonable assurance of compliance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

II. Audit Review of the Corporate Codes of Conduct: Conflict of Interest/Whistle Blower Policies, Anonymous Reporting Systems

The objective of this review was to evaluate the design and operating effectiveness of the Organization's corporate codes of conduct policies related to conflict-of-interest prevention, whistleblower protections, and the anonymous reporting system (ARS), to ensure compliance with internal policies and procedures, applicable regulatory requirements, and the Organization's ability to detect, report, and respond to misconduct.

III. Audit Review of the Housing Stability Counseling Program (HSCP) – Quality Control & Compliance.

The objective of this review was to obtain reasonable assurance on the efficiency and effectiveness of the Quality Control & Compliance process of Program activities.

IV. Audit Review of the NeighborWorks Compass® Budget FY19 – FY22 – Lessons Learned

The objective of this report was to conduct a historical review of key lessons learned from the NeighborWorks Compass Budget for the period FY19 – FY22. It aims to inform future technology-related budget management initiatives by identifying positive outcomes and challenges including the root causes of challenges, and actionable recommendations grounded in internal audit and project governance best practices.

Top Management and Performance Challenges for FY 2026

The following nine top management and performance challenges are an independent view and assessment from the Chief Audit Executive. This assessment is based on the Chief Audit Executive's observations from internal audit activity and risk assessment interviews and exercises conducted with management. All these issues are either already being addressed or have been brought to the attention of management through internal audit activity.

- Sustaining NeighborWorks' network organizations amid ongoing economic pressures
- Identifying and developing new funding streams leveraging federal funding for expanded impact
- Expanding housing production and impact with constrained resources
- Operating efficiently, effectively, and strategically in a high-cost environment
- Delivering strategic priorities with fewer staff through prioritization and productivity gains
- Managing End-of-Life legacy application/systems
- Maintaining investment in critical technology systems to protect against cyber security threats, secure data, ensure resilience, and support ongoing operations
- Maintaining Disaster recovery and business continuity protocols
- Managing adaptation and impact of emerging technologies specifically Artificial Intelligence (AI)

Investigative Activities

Whistleblower Allegation & Retaliation Activities

The Vice President of Ethics & Compliance (V.P. E&C) in the Office of the General Counsel (OGC) 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. For the period under review, the V.P. E&C provided information on the following:

In January 2026, the Corporation received an email from a former employee of a Network Organization (NWO) alleging that in June of 2025 he raised a Whistleblower concern alleging that the NWO may have violated the Real Estate Settlement Procedures Act (RESPA), in its operation of a "preferred lender program." He further alleged that he subsequently experienced retaliation that resulted in his termination. The V.P. E&C communicated with the NWO's Board who were already addressing the allegations. The NWO shared that they had retained external counsel to investigate. Ultimately the NWO shared documentation reflecting that investigation was completed and that both the RESPA and the retaliation allegations were unsubstantiated. No further action was taken by NeighborWorks America.

NeighborWorks America's Organizational Assessment Division (OAD) personnel noted several issues of fraud highlighted in a report from an NWO's external auditor. This included several isolated incidents of fraud by employees that were identified by internal controls. Per the report, the financial impact was not deemed material and the employees were terminated. The documents also noted a cyber security incident that resulted in a significant transfer of funds to a third party. The funds have, however, been recovered.

NeighborWorks America VP E&C reviewed and assisted in the preparation of questions to be incorporated into the NeighborWorks America review of the NWO. OAD reported that the NWO was transparent regarding the past incidents and had since hired a well-qualified CFO and an experienced controller, and enhanced financial controls. No further action was taken by NeighborWorks America.

In late March 2026, a NeighborWorks America OAD field representative was informed that the Executive Director of an NWO was the subject of a Whistleblower report to the organization's Board. NeighborWorks America's OAD has subsequently learned that:

a) The Board hired outside counsel to investigate and that issues related to unauthorized use of the organization's credit card were confirmed.
b) Further review of the financials continues and that the matter or some part of it has been referred to law enforcement for potential action.
c) NeighborWorks America has followed up with a communication to the NWO Board confirming its understanding of the current situation and identifying potential concerns regarding relevant funds.
d) The Executive Director has left the organization and is working elsewhere. The matter is still pending.

In April of 2026 NeighborWorks America OAD received the following information from an NWO regarding alleged fraud:

a) Two years ago, the NWO hired a new CFO to replace the CFO who had retired.
b) During the period between the CFO's hiring and the present, the new CFO is believed to have misappropriated a material amount of money from the NWO.
c) The alleged thefts involved both fraudulent use of the corporate credit card and theft directly from the organization's payroll account. Some portions of the credit card funds have been recovered.

The NWO has:

a) Retained an independent external investigator.
b) Notified local law enforcement and federal law enforcement who are investigating with the intent of bringing charges.

OAD has requested that the NWO share additional information regarding the specific funds involved and keep us informed of the status and outcome of the investigation and any resulting actions. Additionally, the NWO has been put into the NeighborWorks America early alert/watch list process[4]. The matter is still pending.

In addition to the issues referenced above, the Corporation addressed and closed a range of Code of Conduct–related concerns amongst Network members that were primarily informational, jurisdictional, or related to NWOs rather than NeighborWorks America itself. Other such reports included allegations of housing habitability, tenant and landlord disputes, personnel interactions, and employment termination. In most cases, the Corporation [NeighborWorks America] clarified its role as a separate legal entity with no ownership, control, or oversight of specific housing, personnel actions, or NWO operations, and appropriately redirected reporters to NWOs, boards, law enforcement, regulators, or other authorities. Where warranted, matters were forwarded to NWOs for awareness, oversight, or investigation, and the Corporation monitored outcomes through communication with boards, review of investigation results, and early alert/watch processes. Overall, the issues were addressed through clarification, referral, monitoring, and confirmation of corrective actions, with no further action required by the Corporation.

Furthermore, the Corporation itself has received no reports that meet the definition of a whistleblower allegation or retaliation as defined by the NeighborWorks America Whistleblower Policy.

[4] The corporation's process of adding NWOs with risks observed on the early alert/watch list that requires quarterly review of their status by the OHTS (Organizational Health Tracking System) Committee.

Quality Assurance and Improvement Program (QAIP) Activities

The Chief Audit Executive is responsible for developing, implementing, and maintaining an Internal Audit Quality Assurance and Improvement Program (QAIP). The purpose of the QAIP is to provide reasonable assurance to the Board, Audit Committee, and Executive Management that the (IAD):

1. Performs its activities in accordance with the mandatory elements of the International Professional Practices Framework (IPPF), including alignment with the Definition of Internal Auditing and conformance with the Standards and the Code of Ethics;
2. Maintains a comprehensive and effective quality assurance and improvement program; and
3. Is perceived by stakeholders as adding value and improving Internal Audit activities.

Key Components of the QAIP

Internal Assessments - ongoing monitoring, periodic reviews, and special projects conducted by the internal audit team; and

External Assessments – independent evaluations performed at least once every five years, either by an independent or through a self-assessment validated by an independent, external reviewer[5].

Reporting and Follow-up

The Chief Audit Executive must periodically communicate the results of the QAIP, including both the internal and external assessments, to the Audit Committee/Board and Executive Management.

QAIP Activities Conducted During this Reporting Period

During this reporting period, the Internal Audit Division engaged in the following QAIP-related activities:

1. Reinforced independence and objectivity through IAD's completion of the annual Independence & Objectivity Survey and evaluation of potential conflicts of interest;
2. Enhanced audit processes and reporting via TeamMate Plus (internal audit management application) meetings focused on time tracking, documentation, and dashboard reporting improvements;
3. Strengthened continuous risk monitoring and assessment through cross-divisional meetings to assess emerging risks, track open recommendations, and align priorities;
4. Improved assurance coordination through collaboration with OGC to clarify roles across Internal Audit and ERM, supporting strengthened risk governance;
5. Explored improvements to IAD's use and implementation of audit analytics by meeting with a third-party vendor to evaluate new tools and training opportunities; and
6. Promoted continuous improvement and professional development through participation in the 2026 IIA Great Audit Minds Conference.

[5] The Internal Audit Division's most recent external assessment was completed in FY2024 and conducted by an external reviewer, Cohn Reznick, which resulted in the highest rating provided by the Institute of Internal Auditors of "Generally conforms". "Generally Conforms" indicates that the internal audit activity has a charter, policies, and processes that are judged to be in conformance with Standards and the Code of Ethics.

NeighborWorks America Network Activities

The Organizational Assessment Division (OAD) evaluates organizational health through the PROMPT®[6] dimensions, line of business analyses, and audit reviews. PROMPT® stands for Production & Program Services, Resource Management & Financial Management, Organizational Management & Board Governance, Management-Staffing & Personnel, Planning, Technical Operating & Compliance Systems. The PROMPT® framework assesses organizational health, risk, performance, and capacity.

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.

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

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

Review Type	Number of Reviews	Fraud/Whistleblower Findings
PROMPT®	29 assessments conducted	See information provided above under Investigative Activities on Page 9 regarding Network Organizations.
PRO	31 assessments conducted	None to report
Financial Analyses of Network Organizations (who did not receive a PROMPT® or PRO assessment during the calendar year)	77 financial analyses completed	None to report
Grantee Financial Analyses (non-network)	6 financial analyses completed	None to report

Review Activity
October 1, 2025 – March 31, 2026

Network Health Summary, March 2026						
Health Rating[7]	**3/5/2026**		**12/4/2025**		**9/4/2025**	
Exemplary	206	83.5%	204	82.3%	203	81.5%
Exemplary, Provisional Charter	1	0.4%	1	0.4%		
Strong	22	8.9%	23	9.3%	25	10.0%
Good	7	2.8%	11	4.4%	11	4.4%
Satisfactory	5	2.0%	3	1.2%	3	1.2%
Satisfactory, Provisional Charter	--	--	--	--	1	0.4%
Serious	--	--	--	--	--	--
Vulnerable	4	1.4%	5	2.0%	5	2.0%
Vulnerable, Provisional Charter	3	1.0%	1	0.4%	1	0.4%
Grand Total	**248**		**248**		**249**	

[7] See Appendix A for Health Rating criteria and definitions.

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.

Conclusion

The NeighborWorks America Internal Audit Division remains committed to utilizing a systemic and disciplined approach to provide reasonable assurance on the efficiency and effectiveness of 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
NeighborWorks America

APPENDIX A

Criteria for the NeighborWorks® America NWO Rating System PRIOR to June 1, 2025

Rating	Criteria for Preliminary Rating
Exemplary	Exceed performance standards in Production/Program Services, Resource Management, Financial Management, and Organizational Management and Board Governance (PRO) and Meet in other PROMPT dimensions.
Strong	Exceed performance standards in at least three of the following dimensions: Production/Program Services, Resource Management, Financial Management, and Organizational Management and Board Governance (PRO) and no Does Not Meet or no Meets with Concern in other PROMPT dimensions
Good	Exceed performance standards in at least one of the following dimensions: Production/Program Services, Resource Management, and Organizational Management and Board Governance (PRO) and no Does Not Meet in other PROMPT dimensions.
Satisfactory	Meet or Meet with Concern in all PRO dimensions and Meet in MPT dimensions. A rating of Exceed in the Financial Management category alone, without an Exceed in Production/Program Services, Resource Management, or Organizational Management and Board Governance, will result in a Satisfactory rating.
Serious	Exceed, Meet, or Meet with Concern in Production/Program Services, Resource Management, Financial Management, and Organization Management and Board Governance dimension but Does Not Meet in any MPT dimension. Organizations that were rated Vulnerable may be raised to Serious by the OHTS Committee if the organization has developed a plan to mitigate the risk issues causing failure in any of the PRO categories as long as imminent organizational failure is not likely.
Vulnerable	Does Not Meet any one of the Production/Program Services, Resource Management, Financial Management, and Organization Management and Board Governance (PRO) or any 2 of the remaining 3 MPT dimensions