Audit Review of NFMC-Funded Training

Project Number: NFMC 2013
# Audit Review of the NFMC-Funded Training

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January 14, 2014

To: NeighborWorks America Audit Committee

Subject: Audit Review of the NFMC-Funded Training

Please find enclosed the final audit review report of the NFMC-Funded Training process. There were no significant observations to report. Please contact me with any questions you might have. Thank you.

Frederick Udochi
Director of Internal Audit

Attachment

cc: E. Fitzgerald
M. Forster
C. Wehrwein
J. Bryson
P. Kealey
J. Fekade-Sellassie
N. Harmon
## Function Responsibility and Internal Control Assessment
### Audit Review of the NFMC-Funded Training

<table>
<thead>
<tr>
<th>Business Function Responsibility</th>
<th>Report Date</th>
<th>Period Covered</th>
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### Assessment of Internal Control Structure

<table>
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<tr>
<th>Effectiveness and Efficiency of Operations</th>
<th>Generally Effective&lt;sup&gt;1&lt;/sup&gt;</th>
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<tr>
<td>Reliability of Financial Reporting</td>
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<tr>
<td>Compliance with Applicable Laws and Regulations</td>
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This report was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

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<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

<table>
<thead>
<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation Summary</th>
<th>Accept IA Recommendation (Yes/ No)</th>
<th>Management’s Response to IA Recommendation</th>
<th>Estimated Date of Implementation (Month/Year)</th>
<th>Internal Audit Comments on Management Response</th>
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<tr>
<td>Observation No. 1:</td>
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<td>Scholarship Review, Evaluation and Award Process:</td>
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<tr>
<td>a. Process Capacity:</td>
<td>Yes, the current process is relatively labor-intensive but the risk of issuing awards that are not in accordance with current criteria is low.</td>
<td>Recommendation No. 1: Revisit Criteria for Scholarship Selection Criteria: We recommend that NCHEC revisit and further clarify / streamline the selection criteria it currently employs.</td>
<td>Yes</td>
<td>NCHEC will revisit scholarship criteria to determine if any additional streamlining is possible – e.g., whether any criteria should be abandoned.</td>
<td>June 1, 2014</td>
<td>Internal Audit accepts Management’s response.</td>
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<td></td>
<td>In addition, as Internal Audit notes later in the report, current plans for technology will achieve greater interconnectivity between the scholarship module and course registration functionality that will achieve some overall efficiency improvements.</td>
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<td>Internal Audit Comments on Management Response</td>
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<td><strong>b. Consideration of Potential Benefit / Impact:</strong> Given the capacity constraints described above, the selection process cannot consider additional application selection criteria that would be indicative of the potential benefit / value of training competing candidates. For example, no information is collected from applicants (or assessed) on the number of homeowners that have been counseled by the applicant in the recent past, or projections of future counseling.</td>
<td>Management’s judgment is that an attempt to evaluate criteria indicative of “potential training value/impact” would be unduly complex and subjective. It would be extremely time consuming and nearly impossible to verify information about numbers counseled or projected to be counseled. Likewise, smaller groups with lesser resources for trainings (who would benefit greatly from scholarships) would be placed at a disadvantage. This approach could also adversely impact groups serving rural or Native or underserved communities or populations. Finally, the NFMC statute was not intended to allocate funds in a manner that would exclude or adversely impact small or rural organizations.</td>
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<td>Summarized Observation; Risk Rating</td>
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<td>c. Transparency of Scholarship Selections:</td>
<td>Yes, the current database maintains a single data field to record reasons that a candidate did not get awarded a scholarship, but in the overwhelming majority of cases, the description there captures the primary and most important reason an applicant was not awarded a scholarship. The database also provides in other data fields whether a scholarship was in fact awarded under another (non-NFMC) funding source. Also, (b) (4) technology integration between scholarship and registration modules will facilitate scholarship award transparency.</td>
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<td>Risk Rating: (b) (4)</td>
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**Risk Rating Legend:**

**Risk Rating: HIGH**
A significant internal control 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**
An internal 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.

<table>
<thead>
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<th>Management Response to Audit Review NFMC-Funded Training</th>
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<tr>
<td># Of Responses</td>
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<td>----------------</td>
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<td>1</td>
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Background

NeighborWorks has been delivering training programs to enhance the capacity of community development and housing counselors since the inception of the Corporation. To a significant extent these programs have come to identify and differentiate NeighborWorks within the housing, community development and nonprofit sector. The Training Division’s activities extend beyond the actual delivery of training and includes the establishment and administration of National Industry Standards, and the enhancement and maintenance of counselor-support applications (e.g., CounselorMax).

Funding for training to support the NFMC Program, is stipulated in the various congressional legislations that have funded the program since its first Round in FY 2008. Over the course of five years and seven NFMC Rounds, this funding has amounted to a total of $26.8 million. Most of this was allocated to programmatic activities such as NeighborWorks Training Institutes (NTIs), Place-Based Training (PBTs) and Remote Learning (E-Learning).

The application of NFMC funds increased the volume of scholarships significantly; NFMC covered an average of 23% of Training Division costs over the past 3.5 years (although this share has been gradually decreasing over time). As of July 2013, the NFMC Program has funded in-person training scholarships to more than 12,400 housing counselors and online training courses for which more than 5,800 certificates of completion have been issued. An overview was supplied by Training Division that summarizes activities undertaken to date in support of the NFMC Program (Appendix H).

Despite the increased volume of training activity, NFMC-funded Training was incorporated rather seamlessly in Training’s overall processes.

Objective

The objectives of this audit were to:

- Acquire an understanding of the mission, goals and outcomes of the Training Department, particularly in connection with the NFMC Program; and
- Obtain assurance regarding the administration of Training scholarships, as relates to the NFMC Program.

Scope

The scope of this audit covered the following areas, in connection with the usage of NFMC-funds:

- Training Department’s budget execution;
- Policies and procedures supporting Training Department;
- Training processes and supporting systems;
- Training program outcomes; and
- Training scholarship applications and awards.
The latter element received special attention during this review because nearly 90% of NFMC-funded costs over the past 3.5 years covered those associated with NTIs, PBTs and E-Learning.

**Methodology**

An introductory meeting was held on July 29, 2012. Internal Audit formulated a questionnaire to familiarize itself with Training’s processes and Training provided comprehensive responses covering the range of areas touched on in the scope of this audit.

Training also provided reports summarizing its execution of its overall budget and those portions funded by the NFMC Program. Internal Audit examined related financial data, including derivable unit costs of Training, and reviewed the pattern of NFMC-funded training expenses (and associated vendors) posted to the ledgers since the beginning of FY 2012.

On the programmatic side, Training provided policies and procedures governing the administration of training scholarships and also submitted detailed information on the execution of the scholarship application review process, including data on applications received and final decisions made by Training management over the course of roughly two years. These data were analyzed and findings were validated with Training Management.

**Scholarship Application and Review Process:**
The scholarship process has evolved over the years, previously, scholarship applications were received and reviewed manually; however, today, applications are submitted electronically. NeighborWorks has received in excess of 5,000 NFMC applications (from over 2,300 candidates in nearly 1,500 organizations) over the past two years. Demand has significantly exceeded the supply of scholarships; as a result approximately 42% of NFMC applicants did not receive any NFMC scholarships. Consequently, the window for applying for and securing scholarships is relatively short (for some events, capacity was filled within less than 30 days of first application submissions).

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3 However, it is possible that a portion of these applicants may have received scholarships funded by other sources. For reference to a summarization of the supporting information, see Appendix C, “Scholarship Awards per Applicant.”
Observations and Recommendations

Observation 1 - Scholarship Review, Evaluation and Award Process:
An estimated 3,000 electronic applications are received per year for NFMC scholarships alone. Demand significantly exceeds the supply of scholarships: These applications are evaluated against numerous selection criteria (see Appendix A) in relation to both the training event and courses requested. Some criteria are essentially “hard” or non-compensatory (e.g., that the applicant must work for a 501(c)(3) organization) and others are balanced against one another (e.g., “How early did the candidate submit his/her application relative to the others?”). Internal Audit was able to confirm the importance of the timeliness of the application (Appendix F, “Application Denial Rates”) to the likelihood of being awarded a scholarship.

(A) Process Capacity:
The process of evaluating several hundred applications per event for numerous courses within a relatively short timeframe, frequently re-ranking the applications against numerous criteria and budgets for multiple sources of funds (See Appendix B), in often changing circumstances (e.g., applicant cancellations, course cancellations), is inherently complex, laborious and challenging. Relying primarily on the experience and resources of NCHEC staff but limited to semi-manual procedures, the process taxes the team’s operational capacity and potentially opens the door to issuing awards that are not in accordance with current criteria.

(B) Consideration of Potential Benefit/Impact:
Given the capacity constraints described above, the selection process cannot consider additional application selection criteria that would be indicative of the potential benefit / value of training competing candidates. For example, there is no information collected from applicants (or assessed) on the number of homeowners that have been counseled by the applicant in the recent past, or corresponding projections. In this regard, this capacity constraint therefore also limits the possibility of enhancing the value of the investment in training.

(C) Transparency of Scholarship Selections:
The amount of funding invested in Training awards calls for a level of transparency and an ability to render accounts on scholarship award decisions that appears to exceed that currently available in the supporting technology system. The current scholarship database maintains a single data point/field to reflect the reason that a candidate did not get awarded a scholarship. However, given the complexities in the current process, the capture of only

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4 Although the strength of this relationship is not quite as great when the data is examined at an event-by-event level (see Appendix G, “Denial Rates per Event”).
5 Reviews typically involve retrieving the application / award history information for each applicant, on a candidate-by-candidate basis.
6 Internal Audit noted a relative few anomalies in this regard. For example, even though the application selection criteria seeks to avoid the award of multiple scholarships to the same candidate within the same calendar year, the average number of days between awards appears to be around 200 days (just over ½ year). See Appendix E, “Gaps between Awards”. In extreme cases, as many as 7 scholarships were issued to the same candidates within a 2-year period, however this involved candidates that regularly submit many applications. Similarly, while 33% of organizations that applied for scholarships received no scholarships whatsoever, 87 organizations received more than 5 scholarships during that time (of these, a couple were awarded 20 or more (Appendix D, “Scholarship Awards per Organization”).
7 Over 80% of denials recorded for sample cases are assigned one of four standard denial reasons and all of these are related to some form of scholarship / course capacity exhaustion. (Appendix I, “Primary Recorded Reasons for Scholarship Denials”).
one reason for any given denial does not always provide an accurate or a comprehensive understanding of the multiple factors which contributed, in different degrees, to the final determination. This limits the ability to efficiently and transparently demonstrate the relationship between application/candidate attributes and final outcomes.

Internal Audit had proposed NCHEC Management consider exploring subject to a cost-benefit analysis, the implementation of a decision-support system module. However, Management asserts that it had already considered such functionality in the new and determined (i) that it did not have sufficient resources to dedicate to that functionality at this time, and (ii) that the benefit did not justify the cost and time that it would take to build. Management added that the current plans for the will achieve greater interconnectivity between the scholarship module and course registration functionality so that there will be some overall efficiency improvements.

Recommendation 1 – Revisit Scholarship Selection Criteria
We recommend that NCHEC revisit and further clarify/streamline the selection criteria it currently employs, considering new potential criteria that could enhance the value of the scholarships awarded and eliminating criteria that may be unnecessary;

Conclusion

Training is a valuable function for both the NFMC Program and NeighborWorks as a whole. We encourage the Training Division to continue to invest in its capacity to satisfy its mission. We also thank the Training Division for the level of support that it provided during this project as well as its thoroughness and timeliness in delivery of all requested information.

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8 This contrast is illustrated on a sample of cases in Appendix J, “Recorded Reasons for vs. Explanations”)
Appendix A - Scholarship Application Evaluation Criteria

(b) (4)

[Content redacted]

9 (b) (4)

[Content redacted]
Appendix C – Scholarship Awards per Applicant

Distribution of Applicants By No. of Scholarships Awarded to Each Applicant

Figure 1 – Number of Applicants Distributed by Number of Scholarships Awarded to Each.
Appendix D – Scholarship Awards per Organization

Distribution of Organizations by No. of Scholarships Awarded to Each Organization

Figure 2 - Organizations by Number of Scholarships Awarded. (b) (4)
Appendix E – Gaps Between Awards

Avg. Days between Scholarships, by Awardee
(Overall Avg. = 202 Days)

Figure 3 - Days between Awards: (B) (4)
Appendix F – Application Denial Rates – NTIs

Figure 4 - Rate of Application Denial Vs. Time of Submission. Reflects % of applications denied over time; Application Date Percentile is expressed as a percentage of full date range during which applications were submitted. Data includes that for all NTIs and, at this level, reflects a strong linear correlation. (Pearson Coefficient of Correlation = 0.90)
Appendix G – Denial Rates per Event

Below is a series of similar charts reflecting denial rates and prepared at the event level (including just NTIs). The correlations between denial rates and timeliness of application is not quite as when examining all NTIs together\textsuperscript{10}.

\textsuperscript{10} Potential anomalies (early denials and late scholarship awards) were identified in those areas highlighted in red but, upon closer examination, the handling of these cases were sufficiently justified.
Appendix H - Overview Supplied by Training Division

NeighborWorks® America Foreclosure Mitigation Counseling Training Overview

The National Foreclosure Mitigation Counseling funding approved by Congress and signed by the President provides funding to be used to build mortgage foreclosure and default mitigation counseling capacity of non-profit housing counseling intermediaries, state housing finance agencies and their affiliates through training.

The NFMC Training program is managed through staff in the NeighborWorks Center for Homeownership Education and Counseling (NCHEC). This includes staff devoted to implementation of training activities, CounselorMax software systems and managing course development and content.

<table>
<thead>
<tr>
<th>NFMC Training</th>
<th>Appropriations - 008</th>
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<tr>
<td>Round 1 Feb 2008 – FY08</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Round 2 July 2008 – FY08</td>
<td>5,000,000</td>
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<tr>
<td>Round 3 Mar 2009 – FY09</td>
<td>5,000,000</td>
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<td>Round 4 Dec 2009 – FY10</td>
<td>3,000,000</td>
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<tr>
<td>Round 5 Apr 2011 – FY11</td>
<td>3,000,000</td>
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<tr>
<td>Round 6 Nov 2011 – FY12</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Round 7 Apr 2013 – FY13</td>
<td>2,843,000</td>
</tr>
<tr>
<td><strong>Total as 7/11/13</strong></td>
<td><strong>26,843,000</strong></td>
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</table>

As of July 2013, the NFMC funds have helped foreclosure intervention counselors enhance their skills by providing in-person training scholarships to more than 12,400 housing counselors resulting in more than 23,000 certificates of completion, and creating three online training courses for which 5,856 certificates of completion were issued.

Foreclosure Mitigation Counseling Training is offered through four primary delivery channels:
• Scholarships to attend NeighborWorks Training Institutes

• Scholarships to attend Multi-Course Regional Trainings Managed and Hosted by NeighborWorks® America. Regional five-day training events that offer 8 – 10 foreclosure-related courses to approx. 150 – 200 housing counselors per event. We will have conducted 35 by the end of FY13.

• Place-Based Training sponsored by NeighborWorks America and hosted by HUD Intermediaries and or state Housing Finance Agencies. Through NCHEC, NeighborWorks® America offered week-long place-based trainings to non-profit HUD Intermediaries and select HFAs from FY08 – FY11.

• Foreclosure-Related E-Learning Courses. NeighborWorks® has three foreclosure-related eLearning courses so that new and existing counselors can be quickly trained in basic skills needed to deliver quality foreclosure counseling. These courses are made available to NeighborWorks Network Organizations, Intermediaries and State HFAs free or at a reduced rate for every fiscal year.
(b) (4)
Appendix I - Primary Recorded Reasons for Scholarship Denials

![Pie chart showing recorded reasons for denials]

Figure 5 - Recorded Reasons for Scholarship Denials (by Percentage of Cases). Over 80% of denials recorded for sample cases are related to some form of scholarship/course capacity exhaustion.
<table>
<thead>
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<td>4</td>
<td>JKL</td>
<td>Even More</td>
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- **Location:** city, country
- **Duration:** minutes, hours
- **Notes:** additional information