Audit Review of the NeighborWorks Network Charter Affiliations Process

Project Number: OAD.CharterAffil.2012
Audit Review of the NeighborWorks Network Charter Affiliations Process
Internal Audit Department Project # OAD.CharterAffil.2012

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May 4, 2012

To: NeighborWorks America Audit Committee

Subject: Audit Review of the NeighborWorks Network Charter Affiliations Process
Internal Audit Department Project OAD.CharterAffil.2012

Please find enclosed the final audit review report of the NeighborWorks Network Charter Affiliations Process. There were no significant observations made in this review.

Please contact me with any questions you might have. Thank you.

Frederick Udochi
Director of Internal Audit

Attachment

cc: E. Fitzgerald
M. Forster
P. Kealey
J. Bryson
R. Burns
M. Butchko
R. Johnson
K. Kent
S. LeGrand
Function Responsibility and Internal Control Assessment
Audit Review of the NeighborWorks Network Charter Affiliations Process

<table>
<thead>
<tr>
<th>Business Function Responsibility</th>
<th>Report Date</th>
<th>Period Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field Operations and Organization Assessment Division</td>
<td>May 4, 2012</td>
<td>October 1, 2010 – April 30, 2012</td>
</tr>
</tbody>
</table>

Assessment of Internal Control Structure

<table>
<thead>
<tr>
<th>Effectiveness and Efficiency of Operations</th>
<th>Generally Effective(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability of Financial Reporting</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Compliance with Applicable Laws and Regulations</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

This report was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

\(^1\) 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

<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>
</tr>
</thead>
<tbody>
<tr>
<td>There are not any observations to report with this review.</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Risk Rating: N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Management Response to Audit Review Recommendations</th>
<th>NeighborWorks Network Charter Affiliations Process</th>
</tr>
</thead>
<tbody>
<tr>
<td># Of Responses</td>
<td>Response</td>
</tr>
<tr>
<td>N/A</td>
<td>Agreement with the recommendation(s)</td>
</tr>
<tr>
<td>N/A</td>
<td>Disagreement with the recommendation(s)</td>
</tr>
</tbody>
</table>
Background

Each year NeighborWorks America administers a due diligence process that reviews applications of organizations to affiliate as chartered members of the national NeighborWorks Network (the Network). The Evolution of the NeighborWorks Network Policies and Procedures Manual Section 5: Affiliating with NeighborWorks America and the NeighborWorks Network governs the affiliation process. The affiliation process enables NeighborWorks to become acquainted with and evaluate prospective organizations to assess whether or not they contribute to the strategic plan of NeighborWorks and add value to the Network. The Affiliation process includes the collaborative efforts of NeighborWorks Senior Management, Field Operations, and the Organization Assessment Division (OAD). The components of the affiliations process are listed below:

• Strategic Growth Conversations
• Marketing/Initial Application/Full Application
• Preliminary Assessment
• Onsite Assessment
• Post On-site Assessment
• Development (if necessary)
• Chartering
• Transition to Network Member
• Branding
• Letter of Good Standing
• Ongoing Support and Program Reviews
• Funding for Newly Chartered NeighborWorks Organizations

The charter affiliations process requires a considerable commitment of time and resources from both NeighborWorks and the applicant because the process may take 18 – 36 months to complete, depending upon the organizational health of the applicant.

For the purpose of this review, the following components were evaluated during this audit:

Initial Application – Any organization interested in becoming a member of the Network may apply during the Initial Application period, which typically runs for one quarter (i.e., January – March). The application process starts with interested applicants applying online on NeighborWorks website and answering basic questions about their organization including: financial statistics, service area, production, and board composition. The initial applications are assigned to a District Partnership and Growth Management Consultant (PGMC), who is responsible for reviewing the application to determine the following:
1) If the applicant overlaps services provided by an existing Network Organization in the service area; and

2) If the services provided by the organization are aligned with the housing industry and the strategic goals of NeighborWorks.

The PGMC then provides Field Operations with a recommendation on whether or not the organization should receive additional consideration for affiliation or future collaboration.

Field Operations reviews the recommendations and comments of the District PGMCs and makes the final recommendation to NeighborWorks COO and CEO. The COO and CEO review the recommendations of Field Operations and provide final approval. Lastly, formal letters communicating NeighborWorks decision are sent to all applicants.

**Full Application** – Organizations approved by the COO and CEO are extended an invitation to submit a full, more comprehensive, application for Charter Affiliation. The GrantWorks application is used to facilitate the full application process. Organizations are given a deadline to complete the full application. In addition, charter applicants proceeding through the application process are required to obtain a resolution from their respective Board of Directors in support of the organization’s affiliation with NeighborWorks.

**Preliminary Assessment** – Charter applicants are required to submit its financial audit reports/statements for the most recent 3 years. The Financial Analysts of the Organization Assessment Division (OAD) conduct a review of the financial audit reports/statements submitted to assess the financial health of the charter applicant. Key components of the preliminary assessment include the following:

- An Introduction - Overview/Snapshot of the Chartering Organization
- Auditor Communications - states the chartering organizations’ auditors, and the opinions issued by the Auditor.
- Statement of Financial Position - Outlines the Assets, Liabilities, the composition of Net Assets, the existence of debt covenants (including specifics of the covenants and whether or not the organization has been able to maintain those covenants), current portion of debt due in the most recent fiscal year.
- Statement of Activities – Outlines the functional areas, revenues, expenses, other income/expenses, drivers of revenues/expenses, and drivers in significant variances in revenue/expenses.
- Liquidity, Leverage and Cash Flow Ratios
- Conclusions/Potential Resource/Financial Management Health Risk Issues - This section summarizes the review of the financial statements and specifically discusses whether or not the organization was able to generate surpluses. In addition, this section specifically discusses initial risks identified
as a result of the financial review and instructions on additional follow up that may be required when the onsite assessment is performed.

The results of the preliminary assessment are documented in a report, which is provided to Field Operations to make a decision on whether or not NeighborWorks should continue with the affiliation of the charter applicant.

**Onsite Assessment** – An onsite assessment of the charter applicant is performed by OAD. An OAD Management Consultant (OADMC) is assigned to the applicant and the onsite assessment is scheduled. In preparation for the Onsite Assessment, the Management Consultant completes the Discovery Phase, which includes a review of the affiliation documentation submitted in GrantWorks, search/review additional public information available about the applicant, review of the Environmental Scan completed by the PGMC, meeting with the PGMC to understand more about the applicant, an assessment for the need of a Consultant/subject matter expert (SME), and coordinate the site visit. The result of the Discovery Phase is the Discovery Memo, which is distributed to and discussed with OAD and Field Operations Management. The OADMC also schedules a conference call with the applicant (i.e., Executive Director/Chief Executive Officer) to discuss the onsite process and establish/confirm the onsite schedule.

The three day site visit is conducted by the OADMC and Consultant (if required) and encompasses the following activities:

- Introduction Meeting
- A Tour of the applicant’s service area to gauge production and impact
- Interviews with the Executive Director and other Management level personnel, members of the Board of Directors, Residents, and Partners
- Exit Meeting

The PROMPT framework is used to conduct the onsite assessment:

- Planning
- Resource Management
- Organizational Management & Oversight
- Management (includes Financial, Contract, and Personnel/Administration)
- Production/Program Services
- Technical Operating Systems

The results of the onsite assessment are documented in a final report, which is vetted with and distributed to Field Operations and the charter applicant. OAD highlights any chartering issues that may have been identified as a result of the onsite assessment conducted.

**Development** – If chartering issues are identified during the preliminary or onsite assessments and organization may be placed into development status. Once in

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2 The PROMPT process was audited/reviewed by Internal Audit in FY 2009. This framework is also used by OAD to evaluate existing NeighborWorks Organizations during the onsite visits conducted.
development the PGMC works with the organization to create a development workplan, which outlines the specific corrective actions required to resolve the chartering issue(s) identified, action plan of the applicant, NeighborWorks (District level) technical assistance/support (if any), and updates/progress. Completed workplans are reviewed by OAD and any required follow up is conducted if necessary.

Scope

The scope of this review included the FY 2011 charter applicants and any charter applicants in development as of the audit date.

Audit Methodology

Internal Audit selected the FY 2011 applicant process to review, and performed the following procedures:

- Obtained the listing of organizations submitting affiliation applications during the 2011 fiscal year and randomly selected a sample from the FY 2011 applicants with application decisions of No (2), Continued Dialogue (2), and Yes (1);
- Reviewed documentation (including initial applications, full applications, District PGMC, etc.) and conducted interviews with Field Operations and the District Partnership and Growth Management Consultants to understand and validate the processes and procedures performed to arrive at the applicant decisions of No, Continued Dialogue, and Yes.
- Examined documentation supporting approval of the decision and formal communication to the charter applicants.
- Performed walkthroughs, reviewed documentation, and conducted interviews with the Organization Assessment Division’s Financial Analysts and Management Consultants to understand the Preliminary Assessment (i.e., Offsite 3 Year Financial analysis/review) and the Onsite Assessment.
- Observed the Onsite Assessment of a charter applicant.
- Selected one charter applicant from a previous period that was in Development status and conducted interviews and reviewed documentation to support the status of the chartering issues identified, District involvement (if any), and progress to date.
Observations and Recommendations

Based on the review conducted by Internal Audit there were not any significant observations to report.

Conclusion

The collaboration amongst Senior Management, Field Operations, and the Organization Assessment Division throughout the Charter Affiliations process facilitates a thorough unbiased evaluation of charter applicants. The policies and procedures set forth to govern the process are designed to obtain and evaluate relevant information about the charter applicant. We examined evidence to support the process is executed in an organized manner and adequate documentation is consistently maintained to support the status/priority of applicants throughout the process. In addition, we examined evidence to support adequate due diligence is performed to ensure that charter applicants extended an invitation to join the NeighborWorks Network, possess the capacity to contribute to NeighborWorks strategic plan.

As evaluated during the review, we acknowledge that the Financial Analysts and Management Consultants possess a valued level of professional expertise and understanding of the industry, lines of businesses, and the NeighborWorks Network. Their professional expertise was consistently leveraged to gather and present relevant information about the charter applicant’s services provided and the impact of those services in a manner that was easy to comprehend and useful to the decision makers without jeopardizing the integrity of the information.

As a result we found the current affiliations process adequately designed with control and documentation features integrated in a manner that provides and ensures a rigorous and comprehensive review of applicants to the Network.