To:       Ken Wade, Eileen Fitzgerald, Michael Forster, Jeff Bryson

From: Frederick Udochi

cc:       Jeanne (Reitz) Fekade-Sellassie, Mia Bowman, [Redacted] (Consultant)

Date: 18 June 2009

Subject: Audit Review: Grant Recapture Provisions

In accordance with the Internal Audit Plan for the National Foreclosure Mitigation Counseling (NFMC) Program, please find below an Internal Audit report pertinent to Grant Recapture Provisions. Please review and let me know if you have any comments or questions.
Executive Summary

Audit Review of NFMC Grant Recapture Provisions

<table>
<thead>
<tr>
<th>Business Function and Responsibility</th>
<th>Report Date</th>
<th>Period Covered:</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFMC Project Team; Finance</td>
<td>June 2, 2009</td>
<td>1/31/08 – 12/31/08</td>
</tr>
</tbody>
</table>

Assessment of Internal Control Structure

| Effectiveness and efficiency of operations | Generally effective.¹ | Recommendations in specific areas are noted below. |
| Compliance with Applicable Laws and Regulations | Generally effective. |
| Reliability of Reporting | Generally effective. |

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.
### Summary of Observations and Recommendations

A. It was observed that a significant share of the grantees have lagged significantly in their deliverables against the goals and the original schedule.

<table>
<thead>
<tr>
<th>Summarized Observation</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation</th>
<th>Accept IA Recommendation (Yes/ No)</th>
<th>Management’s Response to IA Recommendation (Received 9/18/09)</th>
<th>Estimated Date of Implementation</th>
<th>Internal Audit Comments on Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A.</strong></td>
<td>Yes</td>
<td>Accept IA Recommendation</td>
<td>Yes</td>
<td>NFMC evaluates each and every Grantee at least 4 times during the Grant term (i.e., at the time of their draw triggers), and as their quarterly reports are reviewed. However, we have not implemented a system where, quarterly, we look at all Grantee production with the purpose of identifying groups from which to recapture. To date, recapturing funds mid-grant term posed a greater programmatic risk than allowing slower grantees to ramp up and provide services in their service area at a slower pace. Starting October 1, 2009, we can assess the feasibility of developing such a system; however, we will need time to determine the cost/benefits of implementing such a system given the limited amount of funds and staffing to implement.</td>
<td>Will begin feasibility analysis October 1, 2009</td>
<td>IA accepts Management’s response.</td>
</tr>
</tbody>
</table>

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2 The observations and recommendations in this section are summarized at a high level for informational purposes. To obtain a full, detailed explanation of each, please refer to the “Observations and Recommendations” section. Management’s response is directly related to the detailed observations and recommendations noted in the “Observations and Recommendations” section.
<table>
<thead>
<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation</th>
<th>Accept IA Recommendation (Yes/ No)</th>
<th>Management’s Response to IA Recommendation (Received 9/18/09)</th>
<th>Estimated Date of Implementation</th>
<th>Internal Audit Comments on Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. It was observed that that the current/ revised recapture schedule for Round 1 would allow for re-awarding recaptured funds no sooner than 270 days after project inception.</td>
<td>Yes</td>
<td>We recommend that the schedule and internal processes be rationalized so that the reallocations and re-awards could occur at an earlier stage of the program in order to allow greater opportunity to employ the funds.</td>
<td>No</td>
<td>The recommendation to shorten the amount of time to recommend and process deobligation/recapture is not realistic. NFMC staff needs adequate time to assess grantees, notify grantees of reasons for recapture, receive and evaluate grantee responses, make decisions, implement recapture, and retrieve funds. It does not appear necessary to have a more expedited timeline. In Round 1 (awarded 2.27.08), there was no need for additional funds until 350 days after the grant period began. The first Grantees finished Round 1 on February 18, 2009. All of those Grantees were awarded Round 2 funds and were able to receive those funds expeditiously. NFMC staff decided that, since no grantees could have used additional funds, and such a large percentage of grantees were behind on their goals, it made more sense programmatically to allow grantees to continue to perform and try to reach their goals rather than to take funds away from slower-performing organizations when other organizations did not have a need for the funds.</td>
<td>n/a</td>
<td>IA recognizes that there were extended timelines granted in Round 1 due to the large number of grantees who were behind on their goals during Round 1. We would still advise that Management consider identifying and implementing necessary corrective actions earlier in the subsequent rounds. Since the execution timeline of any given NFMC round is so short, it is important that the Corporation’s actions have sufficient impact to meet the requirements of the Grant Recapture policy.</td>
</tr>
</tbody>
</table>

**Risk Rating:**

- **Yes**
- **No**

- **n/a**
<table>
<thead>
<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation</th>
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<th>Internal Audit Comments on Management Response</th>
</tr>
</thead>
</table>
| C. It was observed that program effectiveness and customer satisfaction with the counseling services are not considered in the evaluations of grantees’ performance. | Yes | We recommend that Management explicitly include in its evaluation of each grantee’s performance a broader set of relevant factors. | Yes | At the time of the review, the customer satisfaction survey was not yet returned. We now have the results and are in the process of analyzing them. We will have recommendations for action ready in September. The sample size for Round 1 Participant Confirmations, which included the customer satisfaction survey, was small. Participant Confirmations were sent to 10 participants from each Grantee. The response rate was nearly 50 percent; however, that means just an average of 5 clients per Grantee was returned which may not be enough to fairly gauge customer satisfaction. In Round 3, if we were to increase the sample size of the Participant Confirmations to 50, this may give a more meaningful return from which to evaluate customer satisfaction. However, doing so would cost $640 extra per agency, for a total of $85,760. This is cost-prohibitive, given the 4% cap on administrative costs. We will, however, continue to evaluate from the smaller sample set and follow up with Grantees that have a high percentage of unsatisfied customers. | Beginning September 2009 | -  
| | | | | | | IA accepts Management’s response. |
| D. It was observed that the original deadline for completion of NFMC Round 1 | Yes | We recommend that Management enforce the original extension deadline; recapture/de-obligate the balances of all unexpended funds from grantees, accordingly; and either return the funds to Treasury, | Yes | Management informed Internal Audit during the exit conference that the Officers were considering the recommendation to recapture and de-obligate any unaccounted for counseling funds and the commensurate program-related support and operational oversight as of June 30, 2009. Note: IA’s recommendation says Grantees will have until July 15, 2009 to upload their final Round 1 clients into the Data Collection System. The | | |

- 4 -
| Program activity was extended in order to allow most grantees an opportunity, to catch up in terms of delivery against their respective goals. |
| or reallocate them to Round 3. |
| “unexpended” funds which may be misleading – NFMC will not actually test whether funds have been expended when recapturing/deobligating. Instead, NFMC will look at the number of units provided at each level, multiplied by the dollar value of each level to arrive at the counseling award “accounted for” and will multiply this by the awarded PRS and OO percentages to arrive at the amount owed to NeighborWorks, either through de-obligation or recapture, as outlined in the Recapture and Deobligation Procedure documentation. |
| A worksheet has been designed which itemizes each of these considerations and will be customized for each Grantee. |
| Recapture and De-obligation process will occur immediately thereafter. Funds retrieved this way will be awarded with Round 3 before September 30, 2009. Grantees that have Round 2 awards will have their recaptured portion debited from their Round 2 draws rather than having to send back a physical check, unless Grantee prefers to return funds via check. |
**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>
</tr>
</thead>
<tbody>
<tr>
<td>NFMC Grant Recapture Provisions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th># Of Responses</th>
<th>Response</th>
<th>Recommendation #</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Agreement with the recommendation(s)</td>
<td>A, C, D</td>
</tr>
<tr>
<td>1</td>
<td>Disagreement with the recommendation(s)</td>
<td>B</td>
</tr>
</tbody>
</table>


Executive Summary

The NFMC Grant Recapture policy[^3] was established by NWA management to mitigate the risk that some grantees would not perform in accordance with their grant agreements or otherwise would not be in compliance with the requirements of the program. To achieve this, it would enable a timely and efficient reallocation of budgetary resources to the more successful grantees midstream through the program.

At the inception of NFMC Round 1, Management highlighted the importance of grant recapture provisions as a mitigating factor to program risks. A schedule for its execution was documented in the Funding Announcement and made available to applicants and the public in January 2008. As a follow-up, on 29 July 2008, Management published a procedure specifically to support the implementation of grant recaptures and de-obligations.

During the course of NFMC Round 1, it became clear that a large percentage of grantees were substantially behind in their progress against their respective program goals. Rather than enforce the policy Management took the decision to extend the program deadlines through June 2009 from December 2008. Therefore no involuntary recaptures or de-obligations have been initiated by Management, as at the date of this report. There were, however, three voluntary recaptures / de-obligations requested by grantees (on their own accord) due to their inability to meet performance goals; of these, one has been completed.

Management explains that there have been limited resources available to periodically monitor grantees against the recapture conditions (triggers) and that, even if recaptures had been executed earlier in the project, the current pool of grantees could probably not have been able to absorb any resulting reallocations.

Given that Round 2 has a short calendar that is not likely to be extended, it will be important to streamline and implement the recapture policy accordingly.

Background

On 26 December 2007, the United States Congress appropriated $180 million for the NFMC Program to help mitigate the current national foreclosure crisis and selected NeighborWorks® America to administer the program.

On 19 January 2008, Management presented to the Audit Committee its assessment of risks to the Corporation stemming from the planned NFMC program and a set of

[^3]: For purposes of this audit report, the term “policy” is defined as the procedural steps developed by Management for the recapture and de-obligation of funds as presented in the statements and terms of: (a) the Final Funding Announcement, (b) NFMC Grant Agreements and (c) the Recapture and De-Obligation Procedure dated 29 July 2008.
proposed strategies to mitigate these risks; grant recapture provisions figured prominently among these strategies, particularly in connection with Program and Management Risk. On 25 January 2008, NeighborWorks® America’s NFMC Program team published a Final Funding Announcement to describe proposed program activities and define requirements for prospective participants and applicants for funding. The document specified that grantees would be subject to Grant Recapture provisions: the first fund reallocation decisions were to have been made on 15 August 2008, just two weeks after the first quarterly reports were due while subsequent reallocation decisions were to have occurred on 15 November and possibly (though not explicitly) after the original end of the grant period at 31 December 2008.

On 26 February 2008, NeighborWorks® America announced that it had granted $130.8 million in grants to 130 organizations. Following the award of NFMC grants, NWA executed related grant contracts with the 130 awardees that incorporated Recapture provisions.

On 29 July 2008 and as a follow-up to the Funding Announcement, NWA published a Recapture and De-obligation Procedure to define NWA criteria and actions that fall under the recapture provisions.

Operational program activity by the grantees and sub-grantees was performed from 01 March 2008 through the balance of the calendar year; however, this period was extended through 30 June 2009 for those grantees that applied for extensions.

In December 2008, two voluntary recaptures / de-obligations were performed. These were for [redacted] and [redacted], for which the amounts to be returned are $4.5 million and $33,000, respectively. In the case of [redacted], $106,000 is still pending as funds to be recaptured as part of that organization’s close-out of NFMC Round 1. [redacted] sought a de-obligation of $34,000 in September 2008, but Management has indicated that it is discussing options with the organization so that it can continue through the completion of program.

**Audit Objective**

The objectives of the audit were to:

- Evaluate the design of the Grant Recapture policy;
- Assess the operating effectiveness of the Grant Recapture policy, and
- Provide recommendations for action (as appropriate) to Management.

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4 Discussed further under “General Observations.”
5 Final Funding Announcement, page 6.
Scope

The scope of the audit included the following areas:

- Obtain an understanding of the NFMC recapture policy;
- Assess the adequacy of the current design of the policy;
- Determine extent to which recaptures are initiated in the circumstances called for by the policy;
- Evaluate the timeliness and efficiency with which the recaptures are effected;
- Determine that grant reallocations are performed appropriately;

Not included in this report is an assessment of the specific processes and procedures in place that would determine and alert Management whether recapture triggers have been met; this assessment will be included under the umbrella of the upcoming audit on NFMC Quality Control system.

Moreover, since no involuntary recaptures / de-obligations had been executed to date, we were not able to perform any testing related to such involuntary measures and as such provide any opinion on the effectiveness of the Grant Recapture Procedures.

Methodology

The audit project was launched with an introductory meeting to discuss the audit objective, acquire a preliminary understanding of the design of the grant recapture and de-obligation process and its implementation.

Understanding of policy was supplemented by review of the Final Funding Announcement, sample Grant Agreements, presentations by Management to the Audit Committee and the Recapture and De-Obligation Procedure published on 29 July 2008.

A questionnaire\(^6\) for NFMC Management was prepared to support this audit that covered thirteen related topics. Management kindly responded to questions raised and added clarifications where appropriate. This was followed by a review of documentation on two grant recaptures / de-obligations performed to date. As mentioned above, testing of involuntary recaptures and their conditions was waived because none have been effected to date.

\(^6\) See Attachment A of this audit report.
General Observations

Risks:

On 19 January 2008, Management presented its assessment\(^7\) of the most significant risks to the NFMC program. As reflected in the following subset of that document, the recapture provisions were to play an important role in mitigating the following risks:

Table 1 - Subset of Risks and Strategies that would be mitigated by Recapture / De-Obligation policy, as presented by Management to Audit Committee on 19 January 2008 (see Attachment A for full contents)

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Sub-Category</th>
<th>Mitigation Strategy (inter alia, emphasis added)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program and Management Risk</td>
<td>8. Capacity of HFAs as overseers of grants and quality control (\rightarrow) Poor quality delivering grants to sub-grantees</td>
<td>(\ldots) o Established draw schedule (\rightarrow) w/ “Built in” right to <strong>scale back awards”...</strong></td>
</tr>
<tr>
<td></td>
<td>12. Poor applicant performance / non-performance</td>
<td>(\ldots) o NWA ability to <strong>recapture, reduce awards</strong> if not performing and administer subsequent funding pool so successful grantees can administer additional dollars; o Execution of a grant agreement providing for a draw schedule, <strong>recapture of funds</strong> and / or other remedies.</td>
</tr>
<tr>
<td></td>
<td>16. Upfront program seeding ($$)</td>
<td>o Established draw schedule (\rightarrow) w/ “Built in” right to <strong>scale back awards”...</strong> o <strong>Fund recapture provision.</strong></td>
</tr>
</tbody>
</table>

Related risks specific to NFMC also stemmed from the following sources:

- The NFMC program was entirely new and was conceptualized and launched within 60 days of the funding legislation;
- Most of the funding would not be directed to NWOs but rather intermediaries and state HFAs with which NWA has had little or no experience of dealing with;
- Ramp-up of counseling capacity and operational activity would prove to be a challenge from many intermediaries.

\(^7\) See Attachment A for the full contents of that presentation.
Recapture Triggers:

The Recapture and De-Obligation procedure published on 29 July 2008 identifies thirteen triggers that could result in recapture. These are:

**Table 2 - Recapture / De-Obligation Triggers**, summarized from Recapture and De-Obligation Procedure, 29 July 2008

<table>
<thead>
<tr>
<th>No.</th>
<th>Trigger for Recapture and De-Obligation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Inadequate Performance</td>
<td>Variances in terms of either MSA units, ratios of Level 1, Level 2 or Level 3 units or total units produced, against goals defined in grantee agreement.</td>
</tr>
<tr>
<td>2.</td>
<td>Non-Compliance</td>
<td>Failure to comply with either of the following: (a) Notice of Intent to Award Funds; (b) Final Funding Announcement; (c) Grant Agreement and Exhibits; (d) Scope of Services Outlined in Grantee’s Application and amended in Exhibits to Grant Agreement.</td>
</tr>
<tr>
<td>3.</td>
<td>Failure to Expend Funds</td>
<td>Failure to expend funds by 31 December 2008 (without extension granted by NWA Management).</td>
</tr>
<tr>
<td>4.</td>
<td>Less-than-Satisfactory Compliance “Audit”</td>
<td>Less-than-satisfactory assessment or failure to correct major weaknesses identified during these third-party procedures.</td>
</tr>
<tr>
<td>5.</td>
<td>Discrepancies in Demonstrated Experience (prior to NFMC)</td>
<td>Discrepancies between claims of demonstrated experience (prior to NFMC) in Grantee’s application and actual experience.</td>
</tr>
<tr>
<td>6.</td>
<td>Misrepresentation</td>
<td>Misrepresentations about Grantee, Sub-Grantees, Branches or Affiliates in the grant application.</td>
</tr>
<tr>
<td>7.</td>
<td>Quarterly Reports</td>
<td>Failure to provide timely quarterly reports or not providing additional information, as requested, to justify significant variances.</td>
</tr>
<tr>
<td>8.</td>
<td>Fees for Services</td>
<td>Not adhering to guidelines on fees for service payments.(^8)</td>
</tr>
<tr>
<td>9.</td>
<td>Membership Fees</td>
<td>The charging of fees (either service fees, membership fees or otherwise) in exchange for foreclosure counseling services.</td>
</tr>
<tr>
<td>10.</td>
<td>Insolvency</td>
<td>If a Grantee becomes insolvent, defunct or commences bankruptcy proceedings.</td>
</tr>
<tr>
<td>11.</td>
<td>Ethics</td>
<td>Failure to adhere to National Industry Standards Code of Ethics and Conduct</td>
</tr>
<tr>
<td>12.</td>
<td>Discrimination</td>
<td>Discrimination against clients based on their gender, race, color, religion, national origin, ancestry, creed, pregnancy, marital or parental status, familial status, sexual orientation, physical, mental, emotional or learning disability.</td>
</tr>
<tr>
<td>13.</td>
<td>Fraud</td>
<td>Fraud, willful misconduct, gross negligence or misappropriation by any employee or the Grantee, without adequate response and correction by the Grantee.</td>
</tr>
</tbody>
</table>

Based on earlier Management statements, however, it appears that the most important factor in considering suitability for Grant Recapture, from any given grantee, would be its

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\(^8\) In accordance with Final Funding Announcement, page 2.
performance on the project. Currently, this is being measured in terms of the level of progress made by the grantee against its defined goals.

Management has explained that these factors have not been gauged periodically, systematically or for all grantees. Rather, they have been evaluated for grantees on an *ad hoc* basis, for example, when grantee-specific complaints reach Management’s attention.
Program Progress Against Original Schedule:

A comparison of actual program progress to the original NFMC plan can be estimated and reflected as in the figures below. Monthly estimates of activity from the Round 1 project plan were prorated from the Draw Schedule\textsuperscript{9}. Actual progress is measured in terms of (a) total number of counseling units of output delivered, as approximated by their intake dates and (b) the Earned (§) Value\textsuperscript{10} of these same units of output. All of these figures are normalized in percentage terms, in relation to the project as a whole.

The first chart is a comparison of actual cumulative progress reported versus the plan, through 15 February 2009, just two weeks after the last quarterly report was due.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{estimated_project_completion.png}
\caption{Estimated Project Progress, Actual (Units and Earned Value, by Intake Month) vs. Planned (per Draw Schedule), as reflected in the DCS on 15 February 2009. Cumulative Percentage of Actual Progress was calculated on the basis of 466,343 units of counseling and $105,423,526 in Earned Value, respectively. * Note that the estimates of actual progress may be overstated because they are based on when customer intakes are performed, as opposed to when the related deliverables are finalized and related counseling files are closed out.}
\end{figure}

\textsuperscript{9} Final Funding Announcement (25 January 2008), “Draw Schedule”, page 13. Percentages were allocated evenly in relation to the draw requirements and anticipated timelines provided.

\textsuperscript{10} The Earned Value represents the budgeted dollar value that would correspond to the amount of counseling delivered. It is derived from the product of the number of units of level 1, 2, 3 of counseling delivered by any given date and the corresponding payment amounts ($150, $200, $350), respectively.
The second chart provides the same information per month, as opposed to a cumulative basis, as reflected in the Data Collection System on 15 February 2009.

Figure 2 - Percentage of Project Completion per Month, as measured by Intakes: Actuals (Units and Earned Value, by Intake Month) vs. Planned (per Draw Schedule) as reflected in the DCS on 15 February 2009. * Note that the estimates of actual progress may be overstated because they are based on when customer intakes are performed, as opposed to when the related deliverables are finalized and related counseling files are closed out.

Observations and Recommendations

A. Application of the Recapture Policy

In connection with the last general observation (see Figure 3, below) a significant share of the grantees have lagged significantly in their deliverables against the goals and the original schedule. A snapshot taken at 15 February 2009, two weeks after final reporting was to have been submitted by the grantees, indicates that 80% of grantees were lagging in their progress against the original schedule. Moreover, 10% of grantees were lagging by at least 80%, while the bottom 20% were at least 66% (2/3rds) behind. Total arrearage at that point in time was equivalent to $40 million for all grantees and $14.2 million for the bottom 20%.
NFMC Variances against Goals at 15 Feb 2009

Distribution of Grantees by % Variance in Earned Value

Figure 3 - Distribution of Variances in Performance at 15 Feb 2009. Earned Value represents the level of progress made in terms of the original budgeted value of counseling activities. (These figures may understate the arrearage because completion rates are based on when customer intakes are performed, as opposed to when the related deliverables are finalized and related counseling files are closed out).
Grantees that most lagged (on 15 February 2009) against their respective goals are as follows:

**Lowest Performers Against Volume Delivery Goals, at 15 February 2009**

Organizations Whose Progress Against Goals Lies at the 20th Percentile (of Grantees) or Below

<table>
<thead>
<tr>
<th>No.</th>
<th>Grantee Name</th>
<th>Counseling $ Awarded</th>
<th>E.V. To Date ($)</th>
<th>Variance ($)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Totals 18,779,552 4,471,150 (14,308,402)

Figure 4 – Those organizations that were in the lowest 20th percentile among all grantees, in terms of delivery progress (measured in Earned Value as a percentage of Counseling Award) against their respective goals, and as reflected in the DCS on 15 February 2009. Yellow shading represents that subset of organizations that were at least 80% behind their goals; Green shading highlights those three organizations that had sought voluntary recaptures or de-obligations. *These figures may understate the arrearage because completion rates are based on when customer intakes are performed, as opposed to when the related deliverables are finalized and related counseling files are closed out.

The Recapture policy had not been implemented as originally intended. The Corporation did not effect any involuntary recapture / de-obligation of funds by the final quarterly report due date. Grantees were instead simply encouraged to meet their goals against the extended Round 1 deadline of 30 June 30 2009. There appears to be no apparent structure in place for monitoring the grantees against the recapture policy guidelines.

Management has provided two explanations for this:

- There have been limited resources available to periodically monitor grantees against the defined recapture conditions or triggers;
Since no grantees had run out of NFMC funds over the course of the project, it would seem that if recaptures had been executed earlier in the project, the current pool of grantees would still not have been able to absorb any of the resulting reallocations.

An opportunity cost may have been incurred from the lack of implementation, limiting the timely use of Round 1 funds entrusted to NWA. Even when factoring in the extension, the current Round 1 project calendar is now almost over and any opportunity to reallocate funds to other Round 1 grantees has passed\textsuperscript{11}.

**Recommendation:**

We recommend that, for subsequent NFMC Rounds, Management develop and actually implement a formal process for recaptures and de-obligations for organizations that do not deliver in accordance with their goals. The current system implementation is more reactive than proactive. Decisions to execute involuntary recaptures earlier in the program could provide the opportunity to make early decisions to reallocate funding to high performing grantees, or those who applied and did not receive. A formal monitoring system that is proactive would enable early identification of both high performing or low performing grantees and intermediaries and their ability for additional capacity.

**B. Rationalization of Recapture Timeline:**

**Observation:**

According to the Funding announcement, grant recapture decisions were to be made on 15 August and 15 November 2008 (i.e., at approximately 55\% and 85\% of the original project timeline of 305 days), respectively.

However, we estimate that the current recapture schedule for Round 1 would have allowed for re-awarding recaptured funds no sooner than 270 days after project inception. This could potentially undermine Management’s ability to make corrective reallocations in a timely manner mid-stream through NFMC project execution.

\textsuperscript{11} At time of writing, it appears that unspent Round 1 funds will be reallocated to the Round 2 program.
### Estimated Recapture / De-Obligation Schedule against Program Timelines

Simulation of Remaining Time to Re-employ Funds Recaptured

#### Defined Dates:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>Days from Inception</th>
<th>% Original Program Timeline</th>
<th>% of Extended Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Start</td>
<td>01-Mar-08</td>
<td>0</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Original Project End</td>
<td>31-Dec-08</td>
<td>305</td>
<td>100.0%</td>
<td>62.8%</td>
</tr>
<tr>
<td>Project End, Under Extended Timeline</td>
<td>30-Jun-09</td>
<td>486</td>
<td>159.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1st Quarterly Report Due</td>
<td>01-Aug-08</td>
<td>153</td>
<td>50.2%</td>
<td>31.5%</td>
</tr>
<tr>
<td>2nd Quarterly Report Due</td>
<td>01-Nov-08</td>
<td>245</td>
<td>80.3%</td>
<td>50.4%</td>
</tr>
<tr>
<td>3rd Quarterly Report Due</td>
<td>01-Feb-09</td>
<td>337</td>
<td>110.5%</td>
<td>69.3%</td>
</tr>
</tbody>
</table>

#### Grant Recapture & Estim. Schedule, based on Funding Announcement:

(Assumes 30 days from Recapture to Re-Award)

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>Days from Inception</th>
<th>% Original Program Timeline</th>
<th>% of Extended Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recapture 1, following 1st quarterly report</td>
<td>15-Aug-08</td>
<td>167</td>
<td>54.8%</td>
<td>34.4%</td>
</tr>
<tr>
<td>Estimated Re-Award 1, following Recapture 1</td>
<td>14-Sep-08</td>
<td>197</td>
<td>64.6%</td>
<td>40.5%</td>
</tr>
<tr>
<td>Recapture 2, following 2nd quarterly report</td>
<td>15-Nov-08</td>
<td>259</td>
<td>84.9%</td>
<td>53.3%</td>
</tr>
<tr>
<td>Estimated Re-Award 2, following Recapture 2</td>
<td>15-Dec-08</td>
<td>289</td>
<td>94.8%</td>
<td>59.5%</td>
</tr>
</tbody>
</table>

#### Schedule & Estimates, based on Recapture & De-Obligation Procedure:

(Factors in 45 days for Notification of Intent, plus 6 weeks for Grantee Response, Final Decision and Recapture)

(Also assumes 30 additional days from Recapture to Re-Award)

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>Days from Inception</th>
<th>% Original Program Timeline</th>
<th>% of Extended Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recapture 1, following grantee appeals</td>
<td>27-Oct-08</td>
<td>240</td>
<td>78.7%</td>
<td>49.4%</td>
</tr>
<tr>
<td>Estimated Re-Award 1</td>
<td>26-Nov-08</td>
<td>270</td>
<td>88.5%</td>
<td>55.6%</td>
</tr>
<tr>
<td>Recapture 2, following grantee appeals</td>
<td>27-Jan-09</td>
<td>332</td>
<td>108.9%</td>
<td>68.3%</td>
</tr>
<tr>
<td>Estimated Re-Award 2</td>
<td>26-Feb-09</td>
<td>362</td>
<td>118.7%</td>
<td>74.5%</td>
</tr>
<tr>
<td>Recapture 3, following grantee appeals</td>
<td>29-Apr-09</td>
<td>424</td>
<td>139.0%</td>
<td>87.2%</td>
</tr>
<tr>
<td>Estimated Re-Award 3</td>
<td>29-May-09</td>
<td>454</td>
<td>148.9%</td>
<td>93.4%</td>
</tr>
</tbody>
</table>

Figure 5 - Key Dates and Estimated Timelines for Recapture

The recapture procedure published on 29 July 2008 effectively revised the key dates for action under the policy. The procedure institutes a notification of intent to recapture to be sent to a given grantee, not later than 45 days following the corresponding Quarterly Report due date. Then it allows for a response from the grantee and a final decision by NWA management, each consuming up to two weeks, plus an additional two weeks to effect the recapture / de-obligation, representing an additional total delay of nearly 2.5 months. Therefore, under the original project timeline (ending 31 Dec 2008), Management would not have been able to effect more than one round of involuntary recaptures and even then would have left any new grant awardee little more than 10% of the remaining project timeline to make use of the reallocated funds.

However, the Round 2 Schedule, with only 9 months of execution from July 2009 through March 2010, will be similar in length (and actually slightly shorter than) to the original Round 1 calendar. In effect, the current schedule, comprising an estimated 270 - 454 days for the re-award of funds, may be impractical for yielding any real benefit from recaptures / de-obligations.
Recommendation:

We recommend that the schedule and internal processes be rationalized so that the reallocations and re-awards could occur at an earlier stage of the program in order to allow greater opportunity to employ the funds.

Specific options for Management consideration are as follows:

- a) The timeframes defined in the above calendar be significantly shortened;
- b) Grant application requirements be shortened, particularly for prior applicants with successful NFMC track records;
- c) Grantees be required to submit (upload) their regular customer data on at least more frequently e.g. weekly basis;
- d) The majority (75% or more, in dollar terms) of recapture decisions be effected within 90 days of grant award, and less than 10% after Q2-end;
- e) Grantees considered for potential recapture receive notification of intent to recapture within the 60 days of program launch, i.e., before the end of the first quarter;
- f) That Management analyze and monitor progress data regarding grantee performance on a sufficiently regular and frequent basis to support accomplishment of the above.

C. Measures of Performance

Observation:

According to the recapture policy, grantee performance is measured entirely in terms of volume (units) of output against agreed-upon goals. Missing from the measurement of performance is any consideration of program effectiveness, such as the degree of success that grantees experience in helping homeowners to keep their homes. Similarly omitted is any reference to customer satisfaction with the counseling services received or the efficiency or speed with which grantees cases are handled and brought to a conclusion.

Recommendation:

We recommend that Management explicitly include in its evaluation of each grantee’s performance a broader set of relevant factors, such as:

- Grantee Success in Resolution, to the extent that outcome data allows for reasonable interpretation;
- Customer Satisfaction Levels for each grantee (as reflected by appropriate samples); and
- Efficiency towards Resolution (as measured by total customer lead / cycle time through initial outcome date).
As for the consideration of volume of counseling delivered, we recommend that % of Earned Value delivered substitute entirely for the total number of units of counseling delivered or related ratios.

D. Round 1 Close-Out Deadline and Actions

Observation:

The original deadline for completion of NFMC Round 1 program activity was 31 December 2008. This deadline was extended to 30 June 2009 to allow most grantees to catch up in terms of delivery against their respective goals.

Recommendation:

We recommend that Management:

- Hold grantees to the 30 June 2009 deadline;
- Recapture / De-Obligate the balances of all unexpended funds from grantees, accordingly; and
- Either return the funds to the Treasury or reallocate them to Round 2.
NWA management performed a global NFMC Program risk identification exercise and presented this to the Audit Committee on 19 January 2008. Defined risks and mitigating strategies were laid out as follows:

**NFMC Areas of Risk-Audit Committee Presentation**

<table>
<thead>
<tr>
<th>Risk Assessment</th>
<th>Mitigation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reputational Risk</strong></td>
<td></td>
</tr>
</tbody>
</table>
| 1. Failure to successfully execute program results in significant decrease in or loss of core appropriation | ▪ Input on program design from a broad range of objective and interested parties  
▪ High quality staff managing project  
▪ Frequent updates to Congress on status of program -- help manage expectations  
▪ Frequent updates to the Board and Audit Committee |
| 2. Compromised partnerships & collaborations with existing HFAs & Intermediaries | ▪ Transparency throughout program design & process  
▪ 3rd party - Data Collection firm  
▪ 3rd party - Program Evaluation  
▪ 3rd party - CPA firm for quality assurance & compliance  
▪ Inclusion of External Application Reviewers  
▪ Advisory Committee |
| 3. Political ramifications due to expectation of support for their constituency from wide representation of Congress | ▪ Transparency throughout program design & process  
▪ Advisory Committee  
▪ Develop a robust communications plan for the Hill |
| 4. Appropriation misrepresented as THE solution to foreclosure problem -- unrealistic expectations | ▪ Proactive timing and effective briefings/presentations on Capitol Hill  
▪ Proactive external communication to manage expectations |
| 5. Missed "60-day" deadline for funding roll-out to areas of greatest need | ▪ Effective staging of program elements -- most critical program elements to meeting the deadline are handled first |
Designated staff working 6-7 days weekly, and around the clock
Strong use of 3rd party vendors and contractors
Regular feedback on Key milestones from Project Director to Executive management

Proactive communication to manage expectations
Maintain active fundraising and prospecting activities

Corporate Scorecard with quarterly board meetings and semi-annual senior management meeting (50 key NWA managers and directors) to maintain focus and attention strategic goals and on all program areas identified in the scorecard
Quarterly Internal Financial Review meetings with Senior management

Program & Management Risk

8. Capacity of HFAs as overseers of grants and quality control
- Poor quality delivering grants to sub-grantees

Use of application to certify minimum QC thresholds & standards
Established draw schedule - w/ "Built in" right to scale back awards
$$ for Operational oversight

9. Insufficient capital for grantees/sub-grantees to administer program

Upfront program seeding
Established draw schedule with built in buffers

10. Unsuccessful data collection system

Strategic selection of high quality vendors
Vendors with proven experience as required prerequisite

11. Applicant misrepresentation via application, production submissions, & counseling product

3rd party consultants conduct on-site and off-site verification

12. Poor applicant performance /non-performance

Established draw schedule
3rd party Data Collection firm and 3rd party QC firm to validate submitted
- Quarterly reports
- Production reports

NWA ability to recapture, reduce awards if not performing and administer subsequent funding pool so successful grantees can administer additional dollars
Execution of a grant agreement providing for a draw schedule, recapture of funds and/or other remedies.

Multi-year funding

13. Insufficient demand for the program -- cannot spend full appropriation

Multi-year funding
Quarterly reports required and subsequent funding rounds allow NWA to revise program guidelines (in consultation with the Board, Advisory Committee and Congressional Staff)

14. Poor quality of NW training
   - Poor delivery due to new hire trainers

   - Standardized training curriculum
   - Train the trainer orientation
   - Post training evaluations for participants
   - Presence of NW staff at training events

15. Poor evaluation plan/measures and faulty execution

   - Internal Auditor risk assessment and program evaluation
   - Timing and involvement of Internal Auditor

### Financial Risk

16. Upfront program seeding($$)

   - Established draw schedule - w/ "Built in" right to scale back awards
   - 3rd party - CPA firm for quality assurance & compliance
   - Fund recapture provision

17. Financially compromised applicants

   - 3rd party - CPA firm to review, ensure quality assurance & compliance

18. Misapplication of funding

19. Training registration fee projections fall short due to availability of so many scholarships and focus on foreclosure

   - Continued marketing for other courses & training tracks

### Legal Risk

20. Misinterpretation of statutory authority

   - Regular review of program design and implementation by NWA executive management, legal counsel, auditors and the Board.
   - Follow-up discussions with appropriations staff

21. Disputes/challenges involving grant awards by applicants

   - Program provision for applicant debriefing process, decision-making transparency, additional resources in the legal budget and regular reports to the Audit Committee on pending litigation.