To: Ken Wade, Eileen Fitzgerald, Jeffrey Bryson, Michael Forster
From: Frederick Udochi
cc: Jeanne Fekade-Sellassie, Mia Bowman

Date: September 16, 2009

Subject: Audit Review: NFMC Compliance with Legislation and Program Requirements

Within the context of the Internal Audit Plan for the National Foreclosure Mitigation Counseling (NFMC) Program, please find below an Internal Audit report pertinent to the NFMC Compliance with Legislation and Program Requirements. Please review and let me know if you have any comments or questions. Thank you.
Executive Summary

Audit Review of NFMC Compliance with Legislation and Program Requirements

Business Function and Responsibility

NFMC Project Team; Finance

Report Date

September 3, 2009

Period Covered:

January 2008– July 2009

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.

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.
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<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management’s Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation</th>
<th>Management Accepts IA Recommendation (Yes/ No)</th>
<th>Management’s Response to IA Recommendation (Management’s Response Received on 11/6/09)</th>
<th>Estimated Date of Implementation</th>
<th>Internal Audit Comments on Management Response</th>
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<tr>
<td>1. It was observed that although most of the grantees’ demonstrated experience certifications were submitted as required, there was no independent review to independently verify the experience information submitted by the grantees. The demonstrated experience information is important as it evidences grantees’ capability and capacity to deliver the required foreclosure services and goals. It is also an important feature of the statutory requirement. <strong>Risk rating:</strong></td>
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<td>No</td>
<td>We recommend that validation of the demonstrated experience provided by grantees during the application process be made a procedural step in the next quality and compliance review by the outsourced vendor – MHM on selected grantees. This would provide assurance that grantees have the capacity of providing the required counseling services through their sub-grantees and branches and reporting the results of the grant to the NFMC program in a timely manner. <strong>Risk rating:</strong></td>
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<td>No</td>
<td>In the Round 1 grant application, NFMC did ask HUD intermediaries and HFAs to submit 9902s and a third party (HUD) independently confirmed that the data in the 9902s were correct. We received these for all the intermediaries and for 18 of the 32 HFAs that received Round 1 funds. Although not independently verified, the remaining 14 HFAs had not previously participated in the HUD Housing Counseling Program, but certified that their subgrantees had the required demonstrated experience. In rounds subsequent to Round 1, the NFMC reported units of counseling can be proof of</td>
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<td>n/a</td>
<td>IA accepts management’s response and evaluation of risk in the context of the following observations: (a) Reliance on third party evaluations of demonstrated experience did not constitute sufficient proof of demonstrated experience. This is evidenced from the fact that as at the time of the Round 2 application process, of the nine HUD intermediaries sampled and reviewed only two grantees had completed over 50% of their Round 1 counseling goals while none of the SHFA’s were above 45% of their Round 1 counseling goals.</td>
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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.

3 Source: GrantWorks Round 2 Application Reviews
demonstrated experience and Management does not believe that the risk at this point is very high, since we have demonstrated experience through NFMC on all Intermediaries and HFAs (which far exceeds the requirement sent out in the funding announcement) except one. The cost to add it to the AUP would outweigh the risk this far into the program. This approach was noted at the Officers’ meeting on 10/20/09 and we indicated specifically that we would not be doing this in the AUP draft document which Director of IA reviewed and did not have objections to.

Consequently, the non-completion of counseling goals was a major contributing factor which lead to the NFMC Program granting Round 1 extensions to it grantees.

In response to the non-objection of the Director of IA to the AUP draft document, IA states that the review of the AUP document does not fall under the scope of the compliance and legislative review report and any resulting non-objections were made without any consideration to managements responses which had not been received at the time.

The drafting of the AUP procedures is the responsibility of the NFMC Program team and although there were no objections offered at the time of the review, the AUP procedures and its results is still open to review by IA.
subsequent to its implementation by MHM.
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<td>2.1 Grantees in line with the Funding Announcement have provided various forms of match documentation i.e. grant award letters relating to their foreclosure programs, commitment letters from donor organizations, grantee’s unrestricted funds etc. However, there is no process set up to determine if funds or commitments were actually received and utilized as match and if in-kind services were indeed contributed and used for the grantee’s foreclosure programs.</td>
<td>Yes</td>
<td>We strongly recommend that validation of the match documentation provided by grantees be made a procedural step in the next quality and compliance review of the outsourced vendor, MHM in order to confirm that funds, commitments, certifications, in-kind services contributed were actually received and utilized as match resources.</td>
<td>Yes</td>
<td>We have added the following to the Year 2 compliance reviews Agreed Upon Procedures (AUP) to satisfy this recommendation. These procedures will only be conducted for those who will receive an on-site review. The Director of Internal Audit reviewed the AUP before it was finalized and did not have any objections. The cost of adding this was $64,320. 1) MHM will obtain from NFMC a list of all match sources for the SHFA, HACI, or NWO. 2) MHM will trace supporting documentation for five sources of cash match to validate that funds have been received, deposited into the agency’s account, and are credited to the foreclosure counseling budget. 3) If grantee uses non-restricted net assets or retained earnings as sources of match funds, MHM will obtain back-up documentation that these funds are available and are credited to the foreclosure counseling budget.</td>
<td>The reviews which contain these procedures are expected to start in November 2009.</td>
<td>IA accepts management’s response. As stated earlier: In response to the non-objection of the Director of IA to the AUP draft document, IA states that the review of the AUP document does not fall under the scope of the compliance and legislative review and any resulting non-objections were made without any consideration of this report which had not been received at the time. The drafting of the AUP procedures is the responsibility of the NFMC Program team and although there were no objections offered at the time of the review, the AUP procedures</td>
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4) If the source of funds are in-kind, MHM will obtain proof that the valuation of in-kind match is reasonable and appropriate. and its results is still open to review by IA subsequent to its implementation by MHM.
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<td>2.2 A number of grantees submitted specific forms of documentation to support their grant’s Match requirement. These documentation included copies of checks, commitment letters, or certification letters which stated that the match funds would be met for instance through the grantee’s operating budget, unrestricted net assets or budget appropriations. We noted that the letters of certification submitted by the Grantees were in most cases self-certifying. Subject to materiality, it might be helpful to obtain third party certification in order to confirm that the certification subject has been independently verified.</td>
<td>Yes (with the changes in bold)</td>
<td>We recommend that the NFMC Program team advises the grantees to maintain on-site, the necessary supporting documentation such as financial records (i.e. profit and loss &amp; balance sheet statements, management accounts, approved budget clearly showing NFMC match funds); signed minutes of meeting, board and agency resolutions and third-party confirmations, as these records will be reviewed during the grant period by the NFMC Program through a third-party contractor, according to their selected samples.</td>
<td>Yes</td>
<td>See response to 2.1 above.</td>
<td>The reviews which contain these procedures are expected to start in November 2009.</td>
<td>IA accepts management’s response.</td>
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Risk rating: 2
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<td>2.3 We observed from our review of match documentation provided that while a number of grantees provided in-kind services documentation from which the resources and services could be evaluated and valued, in some instances some grantees did not provide adequate information to appropriately evaluate and value these services. For example, where office space or equipment was used, there was no identification by the grantee of where the office was located in the form of an address or type of equipments provided.</td>
<td>Yes</td>
<td>We recommend that grantees provide sufficient details when submitting in-kind match documentation to facilitate independent review to appropriately evaluate and value the resources and services to be provided during grant implementation. IA has provided a sample template based on the NFMC original template in use which could address this observation. See Appendix C &amp; D.</td>
<td>Yes</td>
<td>We have already adopted this template and are using it with Round 3.</td>
<td>October 15, 2009. This was implemented when we sent out the Round 3 grant agreements and is posted at nw.org/nfmc.</td>
<td>IA accepts management’s response.</td>
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3. It appeared that the quarterly financial reporting requirement was burdensome for the grantees. Consequently, the NFMC team changed the reporting period for the financial reports from the quarterly basis to the close of the relevant round. In effect, no financial reports would be examined until the end of Round 1, etc.

Management’s Agreement with Observation (Yes/No): No

Internal Audit Recommendation:
We recommend that grantees submit their financial reports at least once during the grant/round period, probably when they have halfway completed their counseling goals. This will provide a basis for the early identification of any program issues and provide lag time for any forms of corrective actions to be taken by either party, both the NFMC team and the grantees.

Management Accepts IA Recommendation (Yes/No): No

Management’s Response to IA Recommendation (Management’s Response Received on 11/6/09):
While NFMC does not collect financials midway through the grant term, it does look at the financial condition of grantees at three points during each grant round: 1) all organizations are required to submit audits and A-133s (if applicable) at time of grant application. These audits are carefully reviewed by a team of CPAs prior to award decisions. 2) During the grant term, MHM looks at certain aspects of their financial management as part of their reviews, and 3) at the end of the grant term we ask for an accounting of their foreclosure program, including sources of revenue and expenditures. Management feels that examination of financial aspects at these three points during the grant term give us a good understanding of grantees’ financial position, and the cost of examining unaudited financial

Estimated Date of Implementation: n/a

Internal Audit Comments on Management Response:
IA is of the opinion that management’s response has not addressed the issue of quarterly financial reporting or some periodic reporting of NFMC specific expenditures that would facilitate a timely and proactive review. See attached document for additional IA response on page 11.
4. The legislation and the Final Funding Announcement state that counseling assistance is to be provided to only homeowners of owner-occupied single-family homes. This requirement is mentioned in the Funding Announcement’s description of target clients. Based on this review and past internal audit reviews carried out, the NFMC program team has planned to incorporate this element into its second round of quality control and compliance monitoring activities agreed-upon procedures with its external consultant - Mayer Hoffman McCann (MHM), the independent CPA firm.

| Risk rating: | statements midway through a grant cycle would outweigh the benefits, given the controls already in place. | Yes | NFMC will increase the number of questionnaires sent out. In Round 1, we sent out 10 per agency. In round 2, we will send out 16 per agency. This will be an additional cost of $32,370 to the MHM AUP. Management does not feel that a pre-mailing will increase the response rate as much as follow-up reminders will. Given the limited funds available, Management believes a good compromise would be to send out reminders. The Director of IA reviewed the draft AUP which included this response and did not have any objections. | The compliance reviews, which include the participant confirmations, are scheduled to begin in November 2009. | IA accepts management’s response. |

In response to the non-objection of the Director of IA to the AUP draft document, IA states that the review of the AUP document does not fall under the scope of the compliance and legislative review and any resulting non-objections were made without any consideration of this report which had not been received at the time.

The drafting of the AUP procedures is the responsibility of the NFMC Program team and although there were no objections offered at the time of the review, the AUP procedures and its results is still open to review by IA subsequent to its implementation by MHM.
Internal Audit Comments to Management’s Response on Recommendation # 3

Management’s Response:

While NFMC does not collect financials midway through the grant term, it does look at the financial condition of grantees at three points during each grant round: 1) all organizations are required to submit audits and A-133s (if applicable) at time of grant application. These audits are carefully reviewed by a team of CPAs prior to award decisions. 2) During the grant term, MHM looks at certain aspects of their financial management as part of their reviews, and 3) at the end of the grant term we ask for an accounting of their foreclosure program, including sources of revenue and expenditures. Management feels that examination of financial aspects at these three points during the grant term give us a good understanding of grantees’ financial position, and the cost of examining unaudited financial statements midway through a grant cycle would outweigh the benefits, given the controls already in place.

Internal Audit Comments:

With reference to the body of report (see Observation and Recommendation # 3), the current management practice of reviewing financial statements at the end of the NFMC Program Rounds is not in compliance with the NFMC Funding Announcement, the signed grant agreements and the OMB circulars (A-110, A-133 and A-122.) It also does not provide for a proactive and timely review of current fund management throughout the course of the grant fund period and does not address IA’s observation and recommendation with respect to quarterly financial reports which are NMFC specific.

In line with the Federal regulation with regard to compliance, the Final Funding Announcement and the Grant Agreements state as one of the program requirements that grantees are required to submit on a quarterly basis it’s tracking of expenditure to date. Reference by management to reviews undertaken at time of grant application is a pre due diligence of financial statements which are historical in nature and do not report NFMC specific use of funds. The however indicate the grantees ability to manage and produce unqualified audited financial statements which is a criteria for funds disbursement. The MHM review during the grant term occurs once during the Round (to date the last review was undertaken in October thru December of 2008) in which quarterly programmatic reports are examined. Management request for accounting of the grantees foreclosure program at the end of the grant term also do not constitute a review of the NFMC’s grant fund expenditure tracking.

This legislative and program requirement seeks to mitigate the risk that grantees have expended and utilized the NFMC funds solely for grant purposes and in an effective and efficient manner.

The quarterly financial reports (which are NFMC specific) are vital control documents which indicate to stakeholders, that current expenditures are in line with the counseling deliverables met within the quarter the financial reporting is based on.

The delivery and monitoring of quarterly financial reports or some periodical reporting would be useful, given the speed at which funds have been expended in such a short time frame. The monitoring of the grantee’s capacity for financial reporting throughout the program would allow for corrective action, as appropriate and therefore would indeed be cost-effective.

Furthermore, the non-provision of financial reports submission on some periodic basis during the grant period increases the organization’s risk exposure.
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.

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<td><strong># Of Responses</strong></td>
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<td>4</td>
<td>Agreement with the recommendation(s)</td>
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<td>2</td>
<td>Disagreement with the recommendation(s)</td>
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**Executive Summary**

As administrators of the National Foreclosure Mitigation Counseling (NFMC) program, NeighborWorks® America (NWA) has set up a quality control and assurance process to ensure that the implementation of the NFMC program adheres to the Legislation as set out by Congress and the NFMC program requirements as contained in the NFMC Final Funding Announcement.

A review of the key legislation and program requirements has been performed by the Internal Audit team in order to evaluate management’s compliance (emphasis on legislation) with the requirements in respect to the NFMC Program.

**Objective**

The objective of the audit was to obtain assurance on Management’s implementation of the legislative requirements of the NFMC Program.

**Scope**

The scope of the audit was restricted to the identification of key legislative requirements from the Congressional Appropriation and our review has been limited to the Round 1 and 2 phases of the program.

**Background**

In response to the nationwide subprime foreclosure crisis, Congress approved legislation authorizing $180 million for a National Foreclosure Mitigation Counseling (NFMC) Program as part of the FY 2008 Consolidated Appropriations Bill. NeighborWorks® America (NWA) was selected to administer the NFMC program. The legislation directed NeighborWorks to meet specific criteria in administering the NFMC Program. NWA also has the responsibility to report to Congress on a bi-annual basis but has undertaken to report quarterly regarding its efforts to mitigate mortgage default.

In order for NWA to met these statutory and reporting requirements, it has included throughout the NFMC funding announcement, various legislative and program requirements to ensure the successful, fair and transparent administration of the NFMC program.

The NFMC legislation and program requirements are largely detailed in the Final Funding Announcement. The Internal audit team identified the following key legislation and program requirements for this review:
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<tr>
<th>Legislative and Program Requirement</th>
<th>Description</th>
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</table>
| 1 Eligible Grantees               | NWA is to distribute grants to:  
(a) HUD approved counseling intermediaries;  
(b) State Housing Finance Agencies (State HFA) and  
(c) Chartered members of NeighborWorks® America |
| 2 Demonstrated Experience         | A Grantee must provide evidence of a successful and recent track record in providing foreclosure intervention counseling services. |
| 3 Match Resources                 | Grantees must match funding received from the NFMC Program either through cash or in-kind resources. |
| 4 Funding Beneficiaries           | Assistance is only to be provided to homeowners of owner occupied single family homes. |

**Methodology**

NeighborWorks® America’s Internal Audit Department (IAD) judgmentally selected a sample of 30 applications from the 130 grantees. The sampling methodology employed three factors for the selection:

1. **Areas of Greatest Need** - grantees located in metropolitan and micropolitan areas identified as Areas of Greatest need in the NFMC Final Funding Announcement.
2. **Geographical Spread** – grantees were evenly selected from the six regions of the country.
3. **Value of Grant Funds** – grantees were also selected based on the value of grant funds received from the NFMC program.

See Appendix A for the selected sample.

**General Observation**

1. **Eligible Grantees**

   The legislation allows for NeighborWorks® America to distribute grants to only HUD-approved housing counseling Intermediaries or State Housing Finance Agencies or NeighborWorks® chartered members that are HUD-approved housing agencies (HCA).

   1.1 There were a total of 16 and 15 HUD approved Housing Counseling Intermediaries (HCI) for the first and second round of funding, respectively. We observed and re-confirmed through the HUD and NFMC websites that these Intermediaries were HUD-approved national and regional organizations that provided housing counseling services through various branches and affiliates.
1.2 All State HFA grantees were required in the NFMC Final Funding Announcement to submitted evidence of their statutory authority to operate as a state HFA and serve the entire state.

It was our understanding that the NFMC external consultant - Mayer Hoffman McCann (MHM) reviewed the documentation submitted by the State HFA grantees in the Round 1 level of funding.

Consequently, we reviewed evidence of the statutory authority of the sample of 26 selected State HFA grantees (listed in Appendix A) and noted these grantees either submitted Certificates of Good Standing or a copy of the enabling act of legislature which created and empowered the agencies to provide housing and related services within the respective states.

With respect to the Round 2 level of funding, we observed that this review was conducted in-house by the Organization Assessment Division (OAD) of NWA for all Round 2 State HFA grantees. The review revealed no exceptions.

**Audit Observations and Recommendations**

1. **Demonstrated Experience**

   The legislation required that Counseling Entities have demonstrated experience in successfully working with financial institutions and borrowers facing default, delinquency and foreclosure; documented counseling capacity and past successful performance and positive outcomes with documented counseling plans.

   At the time of the application process, as detailed in the NFMC Final Funding Announcement, the grantees were required to certify that they met three general conditions:

   - That the grantees had worked successfully in the past with financial institutions and servicers, as well as with customers facing default, delinquency and foreclosure;
   - That they had documented counseling capacity, outreach capacity, past successful performance and positive outcomes with documented counseling (including foreclosure) plans, loan workout and loan modification agreements;
   - That they serviced minimum levels of customers in the past, depending on the level of training of counselors and the percentage of service provided by the applicants in rural areas (see reference for details).

   We understand that a small sample of these certifications were reviewed by the NFMC program team through the review of HUD 9902 forms which the grantees had previously submitted to the US Department of Housing and Urban Development. However, only HUD approved Intermediaries are required to submit these forms and they make up 12% of the total NFMC grantees.
The demonstrated experience information is important as it evidences grantees’ capability and capacity to deliver the proposed foreclosure services and goals, in addition to being an important feature of the statutory requirement.

This is further evidenced by the fact that as the last congressional report, as of March 31, 2009, most grantees (estimated at 104 grantees) were unable to complete their counseling goals by the intended funding expiration date of December 31, 2008 and were granted extensions through June 30, 2009. These were due to several challenges such as, longer than anticipated start-up timeframes, the need to hire/train counselors to meet client demand and various counseling challenges.

**Recommendation**

It is recommended that validation of the demonstrated experience provided by grantees during the application process be made a procedural step in the next quality and compliance review by the outsourced vendor – MHM on selected grantees. This would provide assurance that grantees have the capacity of providing the required counseling services through their sub-grantees and branches and report the results of the grant to the NFMC program in a timely manner.

2. **Match**

A key program requirement of the NFMC program is the Match requirement. Award grantees are required to match the funding they receive from the NFMC program. Grantees must provide a 20% match for $500,000 or less in funding. Any funding in excess of $500,000 requires a match rate of 10% by the applicant. The match may be in cash or in-kind.

In our earlier report on the “NFMC Grant Disbursements and Related Accounting”, our initial review of the Match requirement focused on management providing basic guidelines on the type of documentation requirements for submission to the NFMC Program in respect of grantees’ match documentation submissions. Consequently as a result of the report’s recommendations, the NFMC program implemented the use of a standard template for the documentation and submission of grantees’ in-kind match resources.

Our current review focuses on how the earlier recommendation has been implemented, the resultant effect on the types and forms of documentation submitted by the program grantees and a detailed review of the content of current match submissions. We reviewed the match documentation submitted by our sample of 30 grantees for the Rounds 1 and 2 levels of funding and noted the following observations below.

2.1 **Follow-up review of Match resources**

Based on the review of the NFMC Final Funding Announcement, it appears that the intent of the Match requirement was to ensure that the Program grantees
committed and invested a portion of their resources – cash or in-kind to further support and sustain the provision of the required foreclosure intervention and loss mitigation counseling services.

As noted in an earlier report “NFMC Grant Disbursements and Related Accounting” we further observed that grantees in line with the Funding Announcement have provided various forms of match documentation i.e. grant award letters relating to their foreclosure programs, commitment letters from donor organizations, grantee’s unrestricted funds dedicated towards the foreclosure programs and various related in-kind services. However, it was observed that, there is no process set up to determine if funds or commitments were actually received and utilized as match and if in-kind services were indeed contributed and used for the grantee’s foreclosure programs.

For example, we observed a grantee from our review – which on submission of its Round 2 match requirement, submitted an expenditure report of how the Agency had expended its Round 1 match funds and had a listing of proposed activities for its Round 2 match funds.

**Recommendation**

We strongly recommend that the validation of the match documentation provided by grantees be made a procedural step in the next quality and compliance review of the outsourced vendor, MHM, in order to confirm that funds, commitments, certifications, in-kind services contributed were actually received and utilized as match resources.

**2.2 Sufficiency of Match documentation**

A number of grantees submitted specific forms of documentation to support their grant’s Match requirement. These documentation were either commitment or certification letters which stated that the match funds would be met for instance through the grantee’s operating budget, unrestricted net assets or budget appropriations. We noted that the letters of certification submitted by the Grantees were in most cases self-certifying. Subject to materiality or cut-off dollar amount, it might be helpful to obtain additional third party certification in order to confirm that the certification subject has been independently verified.

**Recommendation**

We recommend that the NFMC Program team advises the grantees to maintain on-site, the necessary supporting documentation such as financial records (i.e. profit and loss & balance sheet statements, management accounts, approved budget clearly showing NFMC match funds); signed minutes of meeting, board and agency resolutions and third-party confirmations, as these records will be reviewed during the grant period by the NFMC Program through a third-party contractor, according to their selected samples.
2.3 In-kind Valuation

A number of grantees met their match requirement through the provision of in-kind resources or services. As stated, in the NFMC Final Funding Announcement; in-kind resources or services can be in form of staff and volunteer time, office space and donated equipment etc.

We observed from our review of match documentation provided that while a number of grantees provided in-kind services documentation from which the resources and services could be evaluated and valued, in some instances some grantees did not provide adequate information to appropriately evaluate and value these services. For example, where office space or equipment was used, there was no identification by the grantee of where the office was located in the form of an address or equipment type provided.

See Appendix B for our detailed observations of grantees which submitted in-kind resources and services as their Match requirement.

Recommendation

It is recommended that grantees provide adequate and sufficient details when submitting in-kind match documentation in a manner that would facilitate an independent evaluation of resources and services utilized by the grantees. We have listed in Appendix C, common in-kind resources and services submitted by grantees and the recommended supporting information which should accompany in-kind match documentation for subsequent returns. Internal Audit made modifications to the current in-kind match template in use by the NFMC program and incorporated details of Appendix C. The enhanced template is suggested for use by the NFMC program see Appendix. D

3. Financial Reports

Our review of the Final Funding Announcement and the Grant Agreements indicated that one of the program requirements is that grantees are required to submit on a quarterly basis, reports which comprised of the grantee’s progress against counseling goals, provision of client level data and tracking of expenditure to date. Payment request shall not be approved for a grantee that has an overdue quarterly report until the report has been submitted by the grantee and approved by NWA.

Based on discussions with the NFMC team, it appeared that the quarterly financial reporting requirement was burdensome for the grantees. Consequently, the NFMC team changed the reporting period for the financial reports from the quarterly basis to the close of the relevant round. In effect, no financial reports would be examined until the end of Round 1, etc. This is further evidenced by the fact that no financial reports were received from the grantees prior to the above change.
**Recommendation**

We understand the reporting burden faced and experienced by the grantees as this reporting burden is prevalent and experienced by most non-for-profit organizations in the Industry.

However, we also note that the NFMC program has significant exposure when the grantees only submit their financial reports at the end of each Round. This is due to the fact that a review of the grantee’s financial reports further validates the completed counseling goals reported by the grantees on a quarterly basis as a comparison of these two data should indicate a linear correlation between the level of counseling goals completed and amount of grant funds expended.

We recommend that grantees submit their financial reports at least once during the grant/round period, probably when they have halfway completed their counseling goals. This will provide a basis for the early identification of any program issues and provide lag time for any forms of corrective actions to be taken by either party, both the NFMC team and the grantee in order to ensure that the grantees are accountable and the NFMC funds have been used solely for grant purposes, effectively and efficiently in the implementation of the grant.

4. **Funding Beneficiaries**

The legislation and the Final Funding Announcement state that counseling assistance is to be provided to only homeowners of owner-occupied single-family homes. This requirement is mentioned in the Funding Announcement’s description of target clients.

Based on this review and past internal audit reviews carried out, the NFMC program team has planned to incorporate this element into its quality control and compliance monitoring activities in order to gauge adherence to the owner-occupancy condition.

The program team stated in its previous response that “As part of the quality control and compliance monitoring agreed-upon procedures with its external consultant - Mayer Hoffman McCann (MHM), the independent CPA firm; confirmations will be sent to a sampling of clients from each grantee organization which will, among other things, ask client to confirm that they were owner-occupants of the home for which they were seeking foreclosure counseling at the time of counseling. This agreed-upon procedures review was concluded in March 2009.

However, based on further discussion with the NFMC Program team, we understood that the results of the first questionnaire sent out by MHM could not be used for further analysis due to questionnaire mis-interpretations by respondents. The NFMC Program team has indicated that another set of questionnaires would be designed and sent out to a sample of clients from the grantee’s organizations during the second compliance review by MHM.
**Recommendation**

We noted that 1,288 questionnaires were sent out during the first MHM review, with a response rate of 15%. For the next rounds of review, we recommend that MHM increases the quantity of questionnaires sent out to respondents in order to achieve an average response rate of 20 – 25% (benchmark based on data reviewed by research companies). We also recommend that MHM employs the use of sending out pre-approach and follow-up letters to respondents to further increase the response rate.

**Conclusion**

Our review of the key legislation and NFMC Program requirements revealed no significant lack of internal controls and non-compliance. We note that the NMFC Program has continued work to put adequate internal control process and procedures in place to ensure that the Program is in compliance with its legislative and program requirements.

Our thanks to the NMFC Program Director and staff for their cooperation on this project.
Appendix A

### SAMPLE OF NFMC GRANTEES REVIEWED

#### HUD APPROVED HOUSING COUNSELING INTERMEDIARIES

1. Neighborhood Assistance Corporation of America  
2. Homeownership Preservation Foundation  
3. ACORN Housing Corporation  
4. HOMEFREE U S A  
5. Money Management International  
6. West Tennessee Legal Services  
7. National Urban League  
8. Catholic Charities USA  
9. Mississippi Homebuyer Education Initiative

#### STATE HOUSING FINANCE AGENCIES

10. Arizona Department of Housing/Arizona Housing Finance Authority  
11. California Housing Finance Agency  
12. Illinois Housing Development Authority  
13. Florida Housing Finance Corporation  
14. Maine Housing  
15. Minnesota Housing  
17. Nevada Housing Division  
19. Pennsylvania Housing Finance Agency  
20. Oregon Housing and Community Services  
21. Ohio Housing Finance Agency  
22. Tennessee Housing Development Agency  
23. Georgia Department of Community Affairs  
24. Iowa Finance Authority  
25. Indiana Housing and Community Development Authority  
26. New Mexico Mortgage Finance Authority

#### NEIGHBORWORKS ORGANISATIONS

27. Los Angeles Neighborhood Housing Services  
28. Neighborhood Housing Services of Chicago  
29. Neighborhood Housing Services of New York  
30. Neighborhood Housing Services of Greater Cleveland
# Appendix B

## In-Kind Match Documentation

<table>
<thead>
<tr>
<th>Grantees</th>
<th>Form of In-kind resources and documentation provided</th>
<th>Sufficiency and adequacy evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 HOMEFREE U.S.A.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 West Tennessee Legal Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Illinois Housing Development Authority</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Maine Housing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Pennsylvania Housing Finance Agency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Oregon Housing and Community Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Iowa Finance Authority</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix C

Examples of In – Kind Match Resources and Required Supporting Information

<table>
<thead>
<tr>
<th></th>
<th>Forms of In – Kind Match Resources</th>
<th>Required Supporting Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Provision of Office Space</td>
<td>Description of the office location, details of leased square meters and cost per square meters.</td>
</tr>
<tr>
<td>2</td>
<td>Office Equipments and Supplies e.g. Printers, Duplicating machines and Computers, Printing papers and writing supplies.</td>
<td>Description of the type of office equipment or supplies. Analysis of the unit cost of office equipments and supplies provided or to be provided.</td>
</tr>
<tr>
<td>3</td>
<td>Provision of Office Furniture and Fittings e.g. Desks, Chairs and File Cabinets.</td>
<td>Description of the type, unit cost and number of furniture &amp; fittings provided or to be provided.</td>
</tr>
<tr>
<td>4</td>
<td>Staff and Volunteer Time</td>
<td>Staff level, designations of staff and volunteer personnel, hourly rates and number of required hours to be provided.</td>
</tr>
<tr>
<td>5</td>
<td>Provision of Corporate services / facilities such as financial and administrative support services, meeting space, mailing services and computer services.</td>
<td>Description of the type of services to be provided, cost of such services; the number of times and duration over which these services will be provided.</td>
</tr>
<tr>
<td>6</td>
<td>Provision of Professional Services and employee expertise such as training services; graphic arts/design services; advertising/promotion/marketing; legal assistance; tax, business and financial advice.</td>
<td>Description of the type of services to be provided, hourly rate of employees; the number of hours and duration over which these services will be provided. Signed Contracts with professional service firms, if any.</td>
</tr>
<tr>
<td>7</td>
<td>Various operating costs: e.g. Running of a Foreclosure and Customer Hotline, Production of Publication and Training Materials, Provision of Internet and Telephone Services</td>
<td>Description of the type of services to be provided, unit cost of services, the number of times services will be provided and the duration over which these services will be provided.</td>
</tr>
</tbody>
</table>
# Appendix D

## Example of Match Documentation Form

**EXHIBIT N: NFMC IN-KIND MATCH DOCUMENTATION FORM**

Electronic Version is Available at [www.nfcc.org](http://www.nfcc.org)
National Foreclosure Mitigation Counseling Program
NeighorWorks America

**INSTRUCTIONS**

1. Review the "Example" tab of this Excel Spreadsheet.
2. Create a separate form for each.
3. Complete the documentation table below - enter all required information for each item.
4. Sign the certification statement.
5. Print and return with your sign-up documentation.

**CERTIFICATION**

(name of Granite) certifies/confirm that these donations are being used for and in accordance with the Granite's Foreclosure Program.

<table>
<thead>
<tr>
<th>Signature of Executive Director, CFO, or Authorized Official</th>
<th>Date</th>
</tr>
</thead>
</table>

| Name of Executive Director, CFO, or Authorized Official |

## MATCH FOR WHICH GRANT?

Funds listed below are for (circle one only)

- NFMC Counseling Grant
- NFMC Legal Assistance Grant

<table>
<thead>
<tr>
<th>Date</th>
<th>Entity providing the match</th>
<th>Type of Match Provided</th>
<th>Value of In-kind resources, state the type and details of in-kind resources provided: (See comment for explanation)</th>
<th>Where applicable: Quantity or number of hours of in-kind resources or services of this type provided</th>
<th>Value of in-kind contribution</th>
<th>Total Value of Match Provided</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
<td>50.00</td>
</tr>
</tbody>
</table>

**NFMC PROGRAM:** Examples of the required details for in-kind resources are:

1. Office Supplies and Consumables: Type, amount and details of equipment or supplies (e.g., printing equipment, printing paper, office supplies)
2. Office Space (Location of offices, details of the office measurement(s) in square meters).
3. Volunteers/Staff trained: Number and skill level, designations of staff or volunteers.
4. Provision of Corporate services and facilities: (financial and administrative support services, meeting space, mailing services and computer services). Please provide the description of the type of services, the number of times and duration over which these services will be provided.
5. Provision of professional services such as training services, graphic design services, advertising/promotion/marketing, legal assistance, tax, business, and financial advice. Please provide a description of the type of services to be provided, the number of hours and duration over which these services will be provided.

**TOTAL IN-KIND MATCH DOCUMENTED** 50.00
MEMO

To: Fred Udochi
From: Eileen Fitzgerald, Jeanne Fekade-Sellasie
Cc: Michael Forster
Re: Internal Audit report on Legislative Compliance
Date: January 15, 2010

With this memorandum, Management is providing additional information as clarification to the NFMC Legislative Compliance audit which was issued on September 16, 2009.

Issue: Internal Audit Recommends that Financial Reports be Collected and Analyzed more Frequently than Yearly

There is one issue in the report which Management feels deserves additional consideration and context. The report states:

“It appeared that the quarterly financial reporting requirement was burdensome for grantees. Consequently, the NFMC team changed the reporting period for the financial reports from the quarterly basis to the close of the relevant round. In effect, no financial reports would be examined until the end of Round 1, etc.”

As a result, IA recommended, “that grantees submit their financial report at least once during the grant/round period, probably when they have halfway completed their counseling goals. This will provide a basis for the early identification of any program issues and provide lag time for any forms of corrective actions to be taken by either party, both the NFMC team and the grantee.”

IA further states that the “practice of reviewing financial statements at the end of the NFMC program rounds is not in compliance with the NFMC Funding Announcement, the signed grant agreements, and the OMB Circulars (A-110, A-133, and A-122).”

NFMC’s Current Practices for Reviewing Financial Information of Grantees

Currently, NFMC uses the following methods for reviewing financial information of its grantees:

1) Audit Review – as part of the grant evaluation process, audited financial statements and A-133s are collected and reviewed. The first three grant cycles occurred in close succession, approximately 10 months apart (awards were announced on February 27, 2008; December 3, 2008; October 1, 2009), and the next set of awards will be likely announced in March 2009, just 5 months after the Round 3 grant awards were announced. Thus, audits have been reviewed at most every 10 months. Management acknowledges that audits are historical, but
because the NFMC program has been in existence for over two years now, the vast majority of grantees’ most recent audits would cover a time period when they were managing NFMC funds.

When grantees are late with their audits, awards are made contingent upon Management’s receipt and satisfactory review of the updated audits. If concerns are raised upon review, Management can either put the grantee on an adjusted draw schedule or not release funds at all until improvements are made.

2) Compliance Reviews – as part of the yearly third-party compliance reviews, Mayer, Hoffman, McCann looks at the following:

- MHM reviews grantees’ financial expenditures and uses, using the Funding Announcement as a guide to determine allow-ability of expenditures. MHM will make NeighborWorks aware of the reasonableness and allow-ability of expenditures. MHM will not make judgments but will provide NeighborWorks with the information to have the ability to do so.

- When onsite, MHM asks for the most recent financial statement including the A-133. If the grantee does not have an A-133, MHM does request financial statements and reviews them to see if an A-133 should have been conducted. They make NeighborWorks aware of any findings.

- MHM checks to make sure each Grantee has an NFMC program budget which includes revenue and expenses.

3) NFMC grantees are required to submit an accounting of fund expenditures in their final programmatic reports which are reviewed prior to disbursement of the grantee’s 4th draw of payment for the grant round.

**NFMC’s Current Practice is Not out of Compliance with A-110, A-133, or A-122**

Management seeks to clarify that the practice of reviewing financial reports once per year is fully in compliance with A-110, A-133, and A-122 and does not violate any condition therein. To quote Circular A-110 (revised 11/19/93 as further amended 9/30/99), “the Federal awarding agency shall determine the frequency of the Financial Status Report for each project or program, considering the size and complexity of the particular project or program. However, the report shall not be required more frequently than quarterly or less frequently than annually.”

With regard to the assertion that the current practice is out of compliance with the NFMC Grant Agreements and Funding Announcements, both contain conflicting information which Management agrees to change in future rounds. The text of both documents state that quarterly reports will include tracking of expenditures to date; however, both include Exhibits which document the quarterly report questions. These Exhibits and the quarterly reports themselves state, “Reminder: at the end of the grant term, you will need to have
Management’s Response to Internal Audit’s Recommendation
With all of the above in place, Management does not agree that additional financial reporting is necessary for all grantees. It does commits to:

1) Continue the practice of reviewing grantees’ revenue and expenditure reports as reported on the Final Report.

2) Change the language in future Funding Announcements and Grant Agreements so to be non-contradictory, and indicate that financial reports are due at the end of the grant term and will keep the existing clause in the Grant Agreement which states, “NeighborWorks America shall have the right and Grantee hereby agrees to comply with any and all NeighborWorks America requests for copies of financial audits conducted or updated during the grant period.”

3) For Grantees with late audits, continue the practice of making funding decisions contingent upon the completion of updated audits with no funds released until those audits are reviewed and accepted

4) Continue the practice of placing grantees on modified/reimbursable draw schedules if the audit raises risk flags

5) Institute a new practice of asking for updated financials when grantees request extensions (for Round 3 and beyond), including an accounting of the current round’s NFMC grant expenditures

6) Starting with Round 3, require those grantees that are either (a) rated “Highest Risk” in the audit rating component of the Risk Rating System used to determine which Grantees receive on-site compliance reviews or (b) those grantees who were placed on a reimbursable or modified draw schedule due to findings in their audited financial statements or OMB A-133 audits to submit financial reports every six months after grant commencement through the end of the grant term. These financial reports shall contain information on expenditures and revenues related to the NFMC program.

The following 10 grantees were identified as meeting these criteria:
The template below will be provided to Grantees to help them report. This is consistent with the manner in which we collect revenue and expenditure information from Grantees in the NFMC Final Report. Grantees will not be required to use the template, but can provide the equivalent information in their own format. They may also submit a narrative if they wish to explain items in the revenue/expenditure report, but a narrative will not be required.

### Income

Please indicate the sources of revenue that support your foreclosure program. Total of percentages must add up to 100%, and 'NFMC funds' must be nonzero. Please keep this information on file for each of your sub-grantees and report only the aggregate percentages.

<table>
<thead>
<tr>
<th>Type</th>
<th>Name of Source</th>
<th>Revenue from this source</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOUNDATIONS</td>
<td></td>
<td></td>
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<tr>
<td>Community foundations</td>
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<tr>
<td>Regional foundations</td>
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<tr>
<td>National foundations</td>
<td></td>
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<tr>
<td>Corporate foundations of financial institutions</td>
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<td></td>
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<tr>
<td>Other corporate foundations (not financial institutions)</td>
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<td></td>
</tr>
<tr>
<td>CORPORATIONS</td>
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<td></td>
</tr>
<tr>
<td>Financial institutions (non-foundation)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporations (non-financial institutions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOVERNMENT FUNDS</td>
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<td></td>
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<tr>
<td>NFMC funds</td>
<td></td>
<td>NFMC Grant</td>
</tr>
<tr>
<td>Other federal funds (e.g. HUD housing counseling funds)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State or local funds</td>
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<td></td>
</tr>
<tr>
<td>INDIVIDUAL DONORS</td>
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<tr>
<td>Individual donors</td>
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<tr>
<td>EARNED INCOME</td>
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<tr>
<td>Fee income</td>
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<tr>
<td>Contract for services with financial institutions</td>
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<tr>
<td>Contract for services, other than with financial institutions</td>
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</tr>
<tr>
<td>Other earned income</td>
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<tr>
<td>Other, please specify:</td>
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<td></td>
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<tr>
<td>Expense Category</td>
<td>Total Foreclosure Program Expenses</td>
<td>Foreclosure Program Expenses funded by NFMC</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Staff, Salaries Plus Benefits</td>
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<td>Consultant Expenses</td>
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<td>Equipment Supplies</td>
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<tr>
<td><strong>TOTALS</strong></td>
<td><strong>Funding</strong></td>
<td><strong>Funding</strong></td>
</tr>
</tbody>
</table>

Management requests to have further discussions with Internal Audit about exactly how these should be analyzed – what staff should be looking for and exactly when corrective action would be triggered to satisfy Internal Audit’s concerns. As NFMC does not have accountants on its staff, this responsibility would have to be outsourced externally or to NeighborWorks’ Organizational Assessment Division, either of which would mean an increased cost to the corporation at a time when the NFMC budget is already stretched thin.
To: Audit Committee  
From: Frederick Udochi  
Cc: Jeanne Fekade-Sellasie, Eileen Fitzgerald, Ken Wade, Mike Forster, Jeffrey Bryson, Mia Sowell Bowman  
Re: Memo from Management regarding Internal Audit Report on the NFMC Legislative Compliance”  

Date: January 22, 2010  

Internal Audit accepts Management’s response\(^1\) relying on the new information made available in items 1 through 6 on pages 3 and 4 of their memo which collectively refers to compliance with A-110, A-133, or A-122.  

As correctly cited by Management from A-110, “the Federal awarding agency shall determine the frequency of the Financial Status Report for each project or program, considering the size and complexity of the particular project or program.” Given that total related funding levels approaching a half-billion dollars and the visibility of the NFMC program, Internal Audit believes that this program is of significant size and that the circumstances call for more (rather than less) frequent reporting. Not actively ensuring compliance in this regard potentially brings undue exposure to both the grantees and NeighborWorks America as the NFMC administrator.  

Management already has a Risk Rating System in place for determining on-site compliance reviews for NFMC grantees. We are pleased that Management has agreed to increase the reporting frequency for (a) those grantees who have been rated as “Highest Risk” in the audit rating component of this Risk Rating System, or (b) those grantees who were placed on a reimbursable or modified draw schedule due to findings in their audited financials or OMB A-133 reports.  

Internal Audit accepts these enhancements and will consider performing a review of the enhancements made on reviewing financial reports during the revision of the NFMC program audit plan to be scheduled for later this fiscal year.