Audit Review of Emergency Homeowners’ Loan Program (EHLP)
Denied Client Applications and Appeals Process
Audit Review of the EHLP Denied Client Applications and Appeals Process
Internal Audit Department Project # EHLP 0412

Table of Contents

Project Completion Letter ........................................................................................................ 2
Function Responsibility and Internal Control Assessment ................................................... 3
Executive Summary of Observations, Recommendations and Management Responses .......................................................................................................................... 4
Background .................................................................................................................. 13
Scope ...................................................................................................................... 14
Methodology ........................................................................................................... 14
Observations and Recommendations ........................................................................... 15
Conclusion ................................................................................................................ 17
Appendix A .............................................................................................................. 18
To: NeighborWorks America Audit Committee

Subject: Audit Review of the EHLP Denied Client Applications and Appeals Process
Internal Audit Department Project EHLP 0412

The Internal Audit Department conducted a review of *EHLP Denied Client Application and Appeals Process* activity as part of the EHLP 2012 Audit Plan. Enclosed is a copy of the recently concluded review of the processes in place to manage denied applications and subsequent appeals.

Please review and let me know if you have any comments or questions.

Frederick Udochi
Director of Internal Audit

Attachment

cc: E. Fitzgerald
    J. Bryson
    M. Forster
    P. Kealey
    J. Fekade-Sellassie
    N. Harmon
    S. LeGrand
    F. Mattos
Function Responsibility and Internal Control Assessment
Audit Review of the EHLP Denied Client Applications and Appeals Process

<table>
<thead>
<tr>
<th>Business Function Responsibility</th>
<th>Report Date</th>
<th>Period Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency Homeowners’ Loan Program (EHLP)</td>
<td>April 13, 2012</td>
<td>June 20, 2011 to September 30, 2011</td>
</tr>
</tbody>
</table>

Assessment of Internal Control Structure

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

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

¹ Legend for Assessment of Internal control Structure: 1. Generally Effective: The level and quality of the process is satisfactory. Some areas still need improvement. 2. Inadequate: Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. 3. Significant Weakness: Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.
## Executive Summary of Observations, Recommendations and Management Responses

<table>
<thead>
<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation Summary</th>
<th>Accept IA Recommendation (Yes/ No)</th>
<th>Management’s Response to IA Recommendation</th>
<th>Estimated Date of Implementation (Month/Year)</th>
<th>Internal Audit Comments on Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observation No. 1</td>
<td>Yes</td>
<td>Recommendation No. 1</td>
<td>Yes</td>
<td>The responsibility lies with the homeowner to submit all required documentation as required by the EHLP (External) Appeals Process and Procedure Manual. Homeowner appeal packets received without an ineligibility letter- yet had significant evidence (through written homeowner request letters and other documentation) indicating the ineligibility criteria being appealed, had their appeal reviewed by third party consultants in coordination with documentation submitted. This process erred on the side of the</td>
<td>5/2012</td>
<td>Internal Audit accepts Management’s response.</td>
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</table>

**Observation No. 1**

Internal Audit encountered 6 files (20%) out of the 30 selected in our sample that did not have an ineligibility notification letter informing the applicant of the following:
- Right to Appeal,
- A link to the EHLP Appeals Manual, and
- An appeal request form among other items.

**Risk Rating:**

- **Yes:**
- **No:**
<table>
<thead>
<tr>
<th>Summarized Observation; Risk Rating</th>
<th>Management Agreement with Observation (Yes/ No)</th>
<th>Internal Audit Recommendation Summary</th>
<th>Accept IA Recommendation (Yes/ No)</th>
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<td>homeowner given the short timeframe established (August 5-29, 2011) for homeowners to appeal during the pre-applicant stage. NeighborWorks was also contractually obligated to review submitted appeals within 14 business days. In instances where an appeal review could not be performed due to incomplete documentation, management instructed consultants to conduct an independent review of the appeal packet noting whether there was insufficient documentation to perform a thorough review. If a review could not be performed due to incomplete documentation, the homeowner given the short timeframe established (August 5-29, 2011) for homeowners to appeal during the pre-applicant stage. NeighborWorks was also contractually obligated to review submitted appeals within 14 business days. In instances where an appeal review could not be performed due to incomplete documentation, management instructed consultants to conduct an independent review of the appeal packet noting whether there was insufficient documentation to perform a thorough review. If a review could not be performed due to incomplete documentation, the</td>
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<td>documentation-the appeal was denied and the counseling agencies' eligibility decision was upheld. For future appeals, involving eligibility determinations by counseling agencies, Management will return homeowner packets that do not contain ineligibility letters. These appeals will not be reviewed by third party consultants. NeighborWorks is no longer contractually bound by an appeal deadline for future appeals or the 14 business day review requirement. Homeowners will have the ability to resubmit a completed appeal packet if deemed incomplete. Program eligibility re-assessments will occur during the one</td>
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<td>Observation No. 2</td>
<td>Recommendation No. 2</td>
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<tr>
<td><strong>Observation</strong></td>
<td><strong>Recommendation</strong></td>
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<tr>
<td>The EHLP “Internal Appeal Process and Procedures” manual indicates that EHLP staff will review documentation received from applicants to ensure sufficiency of documentation prior to assigning the applicant to a consultant. However, there were 15 instances where the consultant’s conclusion was based on the inability to perform the review due to the insufficient documentation received.</td>
<td>Yes</td>
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<td><strong>Recommendation</strong></td>
<td><strong>Management’s Response</strong></td>
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<tr>
<td>Internal Audit recommends that EHLP implement a signed and dated checklist for staff review of documentation received from applicants.</td>
<td>Yes- Management performs this recommendation with the exception of individual staff signatures.</td>
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<tr>
<td>EHLP Staff reviews all submitted documentation. As stated in the EHLP Internal Appeal Process and Procedures Manual, Management has an appeal database tracker where upon receipt of a homeowner’s appeal packet the information is logged. This database was created by EHLP staff and implemented in 8/2011 during pre-applicant appeal process.</td>
<td>EHLP Staff reviews all submitted documentation. As stated in the EHLP Internal Appeal Process and Procedures Manual, Management has an appeal database tracker where upon receipt of a homeowner’s appeal packet the information is logged. This database was created by EHLP staff and implemented in 8/2011 during pre-applicant appeal process.</td>
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<td>8/2011 – Management implemented appeal tracking database staff. 7/2012 – Management will include staff signature as part of its standard documentation review process.</td>
<td>8/2011 – Management implemented appeal tracking database staff. 7/2012 – Management will include staff signature as part of its standard documentation review process.</td>
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**Internal Audit Comments on Management Response**: Internal Audit accepts Management’s response.
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>from the applicants.</td>
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<td>following information is entered and tracked in the appeals database once a homeowner’s appeal packet is received: Homeowner Name Homeowner Address Homeowner Phone Number Counseling Agency name providing counseling Counseling agency contact information Direct EHLP Grantee Name Date appeal packet was received by EHLP staff Check mark indication confirming appeal was electronically scanned to file Check mark indication for which of the 22 ineligibility reasons are being appealed Third party consultant</td>
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</tr>
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<td>assigned to review appeal</td>
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<tr>
<td>After the appeal is assigned to a third party consultant for independent review, the following information is also tracked in the database once a final decision has been determined by EHLP Director:</td>
<td>Final appeal decision</td>
<td>Notes regarding appeal decision</td>
<td>Date decision letter was sent to Homeowner, Counseling agency, and/or Direct EHLP Grantee.</td>
<td>EHLP staff has logged all 628 pre-applicant appeals, from receipt by EHLP to final appeal decision, in an access database. All data points listed above, where applicable, were captured by EHLP</td>
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<tr>
<td>Observation No. 3</td>
<td>Yes</td>
<td>Recommendation No. 3</td>
<td>Yes</td>
<td>All 628 appeal decision letters were signed and dated with EHLP Directors “live” signature, although rescans of letters to file containing the Directors signature were not performed. Management provided IA samples of appeal re-submissions from homeowners who returned their final decision letter showing evidence of the Directors signature was performed. Management has obtained on file EHLP director’s electronic signature. Director’s signature will be included and retained.</td>
<td>4/2012- Director’s signature will be included and retained on all copies of appeal decision letters.</td>
<td>Internal Audit accepts Management’s response.</td>
</tr>
</tbody>
</table>

Based on review of the 30 appeal files selected, there was no documented evidence to support review of the “EHLP Reviewer Appeal Calculator Tool” by the EHLP Director. In addition, none of the response letters sent to applicants were signed by the EHLP Director.

Risk Rating: ""
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<td>on all copies of issued appeal decision letters. Note: All appeal decision letters are dated with NeighborWorks final review determination.</td>
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</table>
**Risk Rating Legend:**

**Risk Rating: HIGH**
A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation’s reputation.

**Risk Rating: Moderate**
A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

**Risk Rating: Low**
A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

<table>
<thead>
<tr>
<th>Management Response to Audit Review Recommendations</th>
<th>Corporate VISA Travel Card</th>
</tr>
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<tbody>
<tr>
<td># Of Responses</td>
<td>Response</td>
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<td>----------------</td>
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<tr>
<td>3</td>
<td>Agreement with the recommendation(s)</td>
</tr>
<tr>
<td>N/A</td>
<td>Disagreement with the recommendation(s)</td>
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</tbody>
</table>
BACKGROUND

The Dodd-Frank Wall Street Reform and Consumer Protection Act provided $1 billion to the U.S. Department of Housing and Urban Development (HUD) to implement the Emergency Homeowners’ Loan Program. The program is designed to provide mortgage payment relief to eligible homeowners experiencing a drop in income of at least 15 percent, directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or medical emergency. The mortgage relief covers past-due mortgage payments, as well as a portion of the homeowner’s mortgage payment for up to 24 months (up to $50,000).

HUD through a cooperative agreement; contracted with NeighborWorks America to perform the following functions for EHLP:

- Select participating counseling agencies;
- Coordinate outreach;
- Create a system by which counseling agencies would submit applications to the Fiscal Agent;
- Conduct training for counseling agencies;
- Facilitate the pre-applicant solicitation and screening process;
- Oversee the provision of the required EHLP counseling levels by grantees; and
- Review homeowner appeals of counseling agency ineligibility determinations.

Over 43,000 homeowners submitted EHLP pre-applications to the counseling agency during the enrollment periods of June 26th – July 27th and August 29th – September 15th. The counseling agency owns the responsibility of determining Pre-applicant Eligibility, Recertification Eligibility after the first year of assistance, and Income Adjustments at any time during the two-year period of assistance if the income of approved homeowners changes. The Counseling Agency responsibilities are explained below:

- **Pre-Applicant Eligibility** – This is determined based on 14 criteria areas, including whether the homeowner has had at least a 15% drop in income directly resulting from involuntary unemployment or underemployment and/or a medical emergency, as well as other EHLP eligibility requirements.

- **Borrower Recertification of Eligibility** – This is determined by whether the homeowner continues to meet income and principal residence requirements to receive further financial assistance.

- **Income Adjustment** - This is determined by the same required process and notification for Borrower Recertification. The only difference is that the eligibility criteria considered will be income.

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2 The EHLP Co-operative agreement between HUD and NeighborWorks America (NW) was signed on May 5, 2011 and has been subjected to a number of amendments. The last recorded amendment was on September 23, 2011.
NeighborWorks E HLP staff reviewed a total of 628 homeowner (pre-applicant) appeals since E HLP’s inception. Of all reviewed appeals, 106 (17%) were reconsidered for grant awards.

**OBJECTIVE**

This audit engagement was primarily focused on the processes in place surrounding homeowner ineligibility determinations and appeals process. The EHLP appeals process for homeowners relates to the decisions made by counseling agencies on application submission, recertification, and other income changes. All such appeals are contracted to be reviewed by third party consultants. NeighborWorks’ appeal decisions are final with no further recourse.

**SCOPE**

The scope of the audit covered the following areas:

- Homeowners pre-applicant appeals submitted during the period;
- Appeals processes, policies, and controls in existence during the above referenced period;
- Review of the procedures performed during the appeals process; and
- Documentation related to review performed by consultants.

Under the EHLP program, there are 3 possible types of appeal:

- Pre-applicant process appeal – currently completed;
- Income change appeal\(^3\) – not scheduled to commence as at the time of our audit review and pending the release of new language for the program by HUD; and
- Re-certification of borrower eligibility\(^4\) – (12 month re-certification of borrower income and residency eligibility).

As a result, only the pre-applicant initial eligibility appeal process was covered under this audit review.

**METHODOLOGY**

The audit project was launched with an introductory meeting on February 1, 2012 to discuss the audit objective and obtain a preliminary overview of denied client applications appeal process, the controls over denied client application (including PII.

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\(^3\) The Income Change Appeals review will start anytime pending release of new language for the program that is being revised by HUD.

\(^4\) Counseling agencies will contact each participating Borrower between the 1st and 30th day of the 11th month of his or her program participation to schedule a mandatory re-certification appointment at the CA’s office.
protected), and any anticipated scope limitations. The initial meeting was followed by a walkthrough of the online policies available in the system and a review of denied client application documentation including the Cooperative Agreement, Emergency Homeowners’ Loan Program Summary Update, and the EHLP Appeals Manual Process Procedures. Internal Audit also designed testing procedures based on EHLP’s manuals to attest on the effectiveness of the controls in place. Testing procedures performed by Internal Audit covered several phases of the appeals process and were applied to the selected appeals.

**SAMPLE SELECTION**

Internal Audit decided to select a random sample since there were no discrepancies in the population that would justify the use of other sample selection methods. In a simple random sample of a given size, all subsets are given an equal probability. This minimizes bias and simplifies analysis of results. In particular, the variance between individual results within the sample is a good indicator of variance in the overall population, which makes it relatively easy to estimate the accuracy of results.

Internal audit used an online application, called research randomizer, to draw 30 unique random numbers out of 628 which corresponds to entire population size of all the appeals. The 30 randomly generated numbers were traced back to the list containing all 628 appeals and the matching files were requested for audit testing.

**OBSERVATIONS AND RECOMMENDATIONS**

**Observation No. 1: Evidence of the Ineligibility Letter**

Internal Audit noted 6 of the 30 appeal files selected for testing did not have documented evidence of an ineligibility notification letter, within the client file and provided to the applicant as required in the EHLP Appeals Manual Process Procedures. The ineligibility letter accomplishes several key objectives in the appeal process:

- Formally communicates to the applicant of the application denial and of his/her right to appeal;
- Instructs the applicant on how to proceed with the appeal process by providing a link to the appeals manual of instructions; and
- Serves as the starting point for consultants to understand why the application was denied by the counseling agency and what is being appealed.

The ineligibility letter also provides an audit trail for the appeals process (*See appendix A for more details*).

Internal Audit made aware by EHLP management that a number of counseling agencies produced ineligibility letters that were not consistent with the language as set forth in the ineligibility template letter provided by EHLP management. This was caused
by a number of counseling agencies rolling out mass emails which did not include the ineligibility letter in their bid to meet the August 29th deadline. Housing organizations filled their applications with the available information they had at the time.

Internal Audit noted that the absence of an ineligibility notification letter resulted in appeal denials by the third party consultants as there was not sufficient information made available to the applicant to successfully complete the appeal. Internal Audit understands that the burden of filing an appeal is on the applicant and the existence of an ineligibility letter is critical to ensure equity and transparency in the appeals process.

**Recommendation No. 1**

Internal Audit notes effective December 2011, EHLP management made it mandatory for counseling agencies to issue ineligibility notification letters to applicants conforming with EHLP’s ineligibility criteria. Internal Audit recommends that EHLP management include the ineligibility letter submission as a step in the file review performed by EHLP internal staff before submission to third party consultants in order to improve the chances of successful appeals and also enforce submission of ineligibility letters to applicants.

**Observation No. 2: Policies and Procedures Review**

Per the EHLP “Internal Appeal Process and Procedures”, EHLP staff is responsible for reviewing documentation submitted by applicants to assess whether or not the documentation provided is sufficient prior to assignment of the applicant file to a consultant for review.

Internal Audit review of the selected applicant files determined that there were 15 instances where the applicant’s packet did not have sufficient documentation. Based on our review, Internal Audit did not find hard evidence of staff review of documentation received from counseling agencies for sufficiency such as: signed and dated checklists of work performed. This would provide the necessary audit trail and documentation of this control feature in the process.

**Recommendation No. 2**

Internal Audit recommends that EHLP implement a signed and dated checklist for staff review of documentation received from applicants. The checklist purpose would be to ensure that evidence of staff review has been undertaken and documented.

**Observation No. 3: Evidence of Review by EHLP Director**

According to the EHLP “Internal Appeal Process and Procedures”, the EHLP Director should review the consultant appeal packet, including the EHLP Appeal Calculator Tool and Summary, make a decision to accept or reject the consultant’s determination on
appeal and if rejected, the E HLP D irector m ust d o cument and retain ( within the homeowner’s file) in writing the reasons for this decision. In addition, a response letter signed by the E HLP D irector is sent to the homeowner by overnight mail indicating whether the appeal was granted or denied, and what actions will next be taken.

Based on our review of the selected sample, none of the files selected included evidence to support that they were reviewed by the EHLP Director on the EHLP Reviewer Appeal Calculator Tool, nor was there evidence to support that the response letters sent to the applicants were signed by the EHLP Director.

**Recommendation No. 3**

The final review is a crucial step of the appeals process since it conveys the big picture of the overall process and the person performing the review could capture significant opportunities for process improvement. Internal Audit recommends all appeal files on “EHLP Reviewer Appeal Calculator Tool” be reviewed by EHLP senior management and that a signature and date of review is included as evidence of review. Furthermore, we recommend that the response letter generated and sent to the applicants is signed by the EHLP Director. The final review and sign-off is important as it brings the case file to a close.

**CONCLUSION**

The Emergency Homeowners’ Loan Program has implemented an adequate structure and process to conduct the Denied Client Application Appeals Process. The policies and procedures currently in existence outline the appeals process in as much detail as possible. The aforementioned recommendations would further enhance this process and ensure that sufficient control mechanisms are continuously maintained over the entire process.
Appendix A

According to the manual the counseling agency provides the following: “Once determinations of ineligibility are made, the Counseling Agencies must provide the following to homeowners:

• Ineligibility Notification Letter sent via US postal mail or email. Ineligibility letter must reference link to include the EHLP Appeal Request Form OR the Emergency Homeowners’ Loan Program Appeals Manual and Procedures. (See www.findehlp.com for link to Appeals Manual)
• Completed EHLP Eligibility Checklist Documentation form or printed EHLP Calculator Tool Summary page.
• Return of all original supporting eligibility documents. (Counseling agency must retain copies on file.)
• If applicable, a credit report if retrieved and can be provided directly to the homeowner. In the event the Counseling Agency cannot contractually release the homeowner’s credit report, the homeowner will be required to generate and provide a tri-merged credit report with their appeals packet.”