

Internal Audit  
NeighborWorks® America

**Audit Review**  
**Of**  
**Capital Underwriting**

Project Number: NW.FLDC.CAPU.2016

# Audit Review of Capital Underwriting

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September 29, 2016

To: NeighborWorks America Audit Committee

Subject: **Capital Underwriting**

Enclosed is our draft audit report on the review of the Corporation's grant Capital Underwriting process. Please contact me with any questions you might have.

Thank you.

Frederick Udochi  
Chief Audit Executive

Attachment

cc: P. Weech  
T. Chabolla  
J. Bryson  
L. Williams  
K. Watts

**Function Responsibility and Internal Control Assessment  
Audit Review of Capital Underwriting**

| Business Function Responsibility                | Report Date                            | Period Covered                               |
|---|--|--|
| Field Operations                                | September 29, 2016                     | October 1, 2015<br>Through<br>April 30, 2016 |
| <b>Assessment of Internal Control Structure</b> |  |  |
| Effectiveness and Efficiency of Operations      | <b>Generally Effective<sup>1</sup></b> |  |
| Reliability of Financial Reporting              | <b>Not Applicable</b>                  |  |
| Compliance with Applicable Laws and Regulations | <b>Not Applicable</b>                  |  |

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

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<sup>1</sup> **Legend for Assessment of Internal Control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

## Executive Summary of Observations, Recommendations and Management Responses

| Summarized Observation Risk Rating   | Management Agreement with Observation (Yes/ No) | Internal Audit Recommendation Summary | Accept IA Recommendation (Yes/ No) | Management's Response to IA Recommendation | Estimated Date of Implementation (Month/Year) | Internal Audit Comments on Management Response |
|--|---|---------------------------------------|------------------------------------|--|---|--|
| <p>There are no observations to report with this review.</p> <p>Risk Rating: N/A</p> | N/A   | N/A                                   | N/A                                | N/A  | N/A   | N/A  |

## 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.

| <b>Management Responses to<br/>The Audit Review of:<br/>Capital Underwriting</b> |   |                         |
|--|---|-------------------------|
| <b># Of Responses</b>  | <b>Response</b>                         | <b>Recommendation #</b> |
| 0  | Agreement with the recommendation(s)    | 0                       |
|  | Disagreement with the recommendation(s) |                         |

## **Background**

The majority of NeighborWorks America's (NWA) funding results from Congressional appropriations which are used to carry out NWA's mission through the creation of resource opportunities and distribution of the related monetary awards. Funds are allocated through a granting process of two Rounds annually and for the fiscal year 2016 a total of \$60,595,776 was awarded in grant funds for Round 1 of the Corporation's grant award process. Approximately half of this amount was in the form of capital grants that fell under the oversight of the Field Operations Division.

Capital Underwriting refers to the award determination process by which applications submitted are reviewed, scored, recommended for an award; and subsequently, approved. For FY16 Round 1, applications for resource opportunities were made available, submitted, and approved within GrantWorks. While the majority of the process is documented within GrantWorks, the actual scoring, review, and award determination were done manually outside the GrantWorks system and required concurrence at various stages.

Since the resource opportunities that are created account for a large portion of the cash outflow, it is important to ensure that the policies, procedures, and control points that serve to facilitate this business process are appropriate and assist in risk mitigation.

## **Objective**

The objective of this review was to obtain reasonable assurance that:

- The administration of capital grants is appropriate and is in compliance with the policies and procedures.
- The criteria used in the approval process is being applied consistently
- Proper supporting documentation consistent with policy is being maintained.

## **Scope**

Internal Audit (IA) conducted a review of Round 1 capital grants that were administered by Field Operations and approved between October 1, 2015 and April 30, 2016. The Real Estate Development Factory Built Housing grants were excluded from the scope as this grant was not identified as a resource opportunity that was administered by Field Operations.

## **Methodology**

The Capital Underwriting review was done to determine if the criteria used in the approval process was being applied consistently and to ensure that the approvals were appropriate based on the policies and procedures. The capital grants that fell within this timeframe are the FY16 Round 1 capital grants. Applications opened on September 8, 2015 and were due

on October 23, 2015. The review process included the scoring of applications and concurrence which occurred between October 2015 and February 2016.

Internal Audit began this review by obtaining and reviewing the FY16 Round 1 Grants to Network Organizations in a memo dated March 4, 2016. Internal Audit also sent out a questionnaire to Field Operations in order to clarify some aspects of the memo and to assist in gaining an understanding of the overall capital underwriting process. After reviewing the questionnaire and the memo, IA met with Field for the Introductory Meeting at which IA obtained an overview of the capital underwriting process.

Based on the discussion at the meeting, the results of the questionnaire, information in the memo and other related documents, IA developed a test plan. Through further inquiry with the SVP, Field Operations, four resource opportunities were identified as having been administered by Field Operations. These four opportunities are lending capital line of business, loan capital non-line of business, real estate capital line of business, and real estate development non-line of business.

IA requested the populations for the four resource opportunities. Samples were initially selected using a combination of random number generator in Excel from the combined total population. The sample was modified using random selection in order to obtain sufficient sampling across all four resource opportunities. See Appendix B for a description of the methodology approach used for each resource opportunity.

### **Observations and Recommendations**

Based on the review conducted by Internal Audit, there are no significant observations to report at this time.

### **Conclusion**

The audit review of the Capital Underwriting process found that documentation to support the review and scoring of applications is being maintained. Internal Audit finds that the capital underwriting process for FY16 Round 1 field administered capital grants appear to have been carried out according to policy and procedures. Internal Audit noted no inconsistencies with regard to the review or scoring procedures. Our interactions with the field team were collaborative and productive. We would like to extend our thanks to the Senior Vice-President and team for their cooperation and assistance during this review.



## APPENDIX A

### FY 16 Round 1 Capital Grants (Field Operations) Summary with FY15 Comparison

|  | FY15<br>Budget         | FY16<br>Budget         |
|--|------------------------|------------------------|
| Total Budget for National Pool/Regional Grants | \$58,902,000           | \$61,629,000           |
|  |                        |                        |
| Capital Grants (Field)                         | FY15<br>Round 1 Awards | FY16<br>Round 1 Awards |
| Real Estate Capital Line of Business (LOB)     | \$14,595,000           | \$13,959,500           |
| Lending Capital Line of Business (LOB)         | \$5,810,000            | \$7,509,500            |
| Real Estate Development Non-Line of Business   | \$5,023,000            | \$5,820,000            |
| Loan Capital Non- Line of Business             | \$3,792,000            | \$2,780,000            |
| Total Capital Awarded (Field)                  | \$29,220,000           | \$30,069,000           |

\*Data provided in table taken from FY16 Round 1 Grants to Network Organizations dated March 4, 2016

## APPENDIX B

### Detailed Methodology

#### **Lending line of Business**

For each sample that was selected for detailed testing, IA verified the applicant's eligibility by first reviewing the Historical Rating which lists the network OHTS ratings at quarter month end, to substantiate the applicant held a rating of exemplary or strong throughout the process. Copies of volume reports generated from the client reporting system were obtained and reviewed to ensure volume requirements. IA obtained and reviewed the October 31, 2015 CDFI certification listing noted that all of the samples selected for testing were on the listing. The scoring templates were obtained and reviewed for consistency, accuracy, and completeness. Scoring templates were also used to validate that two separate independent reviews occurred by the proper personnel per policy. IA verified that there was either concurrence between reviewers or that any differences between reviewers finalized scores did not exceed the pre-determined range per policy. Group concurrence, bin placement, and the calculation of the award were verified. IA noted that these criteria were evidenced via a spreadsheet that compiled all of the relevant data. Bin placement and award calculation were both re-performed to ensure accuracy.

#### **Loan Capital Non-Line of Business**

For each sample that was selected for detailed testing, copies of volume reports generated from the client reporting system were obtained and reviewed to ensure volume requirements were met. IA reviewed the completed scoring templates to verify that each application was independently reviewed by proper staff and an external consultant per policy. The scoring templates were also reviewed for consistency, accuracy, and completeness. IA verified that there was either concurrence between reviewers or that any differences between reviewers finalized scores did not exceed the pre-determined range per policy. Group concurrence, bin placement, and the calculation of the award were evidenced were also verified. IA noted that these criteria were evidenced via a spreadsheet that compiled all of the relevant data. Tier placement and award calculation were both re-performed to ensure accuracy.

#### **Rental Real Estate Line of Business**

For each sample that was selected for detailed testing, IA verified the applicant's eligibility by first reviewing the Historical Rating, which lists the network OHTS ratings at quarter month end, to substantiate the applicant held a rating of exemplary or strong at the time of application. IA obtained and reviewed the FY16 LOB eligibility spreadsheet to verify that production minimums were met for eligibility purposes. The master matrix was used to compile the scores, bins, and tiers of each applicant. IA obtained and reviewed the master matrix. The scores in the master matrix were cross referenced to the scoring templates that were completed for each applicant. The FY16 bin sheet was used to compile the production data for applicants, analyze that data, and then place applicants in a bin based on the outcome of the analysis. This sheet was also used to document follow up discussions and consensus. IA obtained and reviewed the FY 16 bin sheet for completeness and ensured that the assigned bin numbers were transferred to the master matrix with accuracy. In

addition IA spot checked cells at random within the FY 16 bin sheet to solidify confidence that the formulas were free from errors. Through re-performance IA verified that the applicant was placed in the proper tier and that the award amount was accurate per policy.

### **Real Estate Development Non-Line of Business**

For each sample that was selected for detailed testing, IA reviewed the application in GrantWorks and ensured that each application did not exceed the two-use maximum or award maximum per policy. GrantWorks was also reviewed to ensure that the applicant was not participating in the rental real estate line of business capital grant resource opportunity. The applicant's eligibility by first reviewing the Historical Rating which lists the network OHTS ratings at quarter month end, to substantiate the applicant held a rating of exemplary or strong at the time of application. With regard to full development, IA also obtained and reviewed the FY16 Non-LOB Full Development Master Matrix spreadsheet and found evidence that eligibility thresholds had been reviewed. IA verified that a standardized scoring rubric was used for the scoring process in all areas of development. The score rubrics were reviewed to ensure they included all criteria per policy. Score outcomes were re-performed to validate the tier placement and award amount.