



To: Ken Wade, Eileen Fitzgerald, Jeffrey Bryson and Michael Foster

From: Frederick Udochi

cc: Nelson Merced, Marietta Rodriguez, Mia Bowman

Date: November 26, 2008

Subject: **Audit Review: Center for Foreclosure Solutions/Ad Council**

Within the context of the Internal Audit Plan for Fiscal Year 2008, please find below an Internal Audit report pertinent to the Center for Foreclosure Solutions/Ad Council. Please review and let me know if you have any comments or questions. Thank you.

Executive Summary

Audit Review of Center for Foreclosure Solutions/Ad Council

Business Function and Responsibility

Center for Foreclosure Solutions/Ad Council Project Team

Report Date

January 5, 2009

Period Covered:

April 2007– June 2008

Assessment of Internal Control Structure

Effectiveness and efficiency of operations

*Generally effective.*¹
Recommendations in specific areas are noted below.

Reliability of Reporting

Generally effective.

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

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

Summary of Observations and Recommendations²:

Summarized Observation; Risk Rating	Management Agreement with Observation (Yes/ No)	Internal Audit Recommendation	Management Accepts IA Recommendation (Yes/ No)	Management's Response to IA Recommendation (Received 3/23/09)	Estimated Date of Implementation	Internal Audit Comments on Management Response
<p>1. It was observed that written approval for Ad Council expenditures in excess of \$25,000 were unable to be located, primarily due to a staff transition.</p> <p>Risk rating: ████████</p>	Yes	It is recommended that copies of approvals be maintained at NeighborWorks® America, and that the Center for Foreclosure Solutions establish an information and communications transitional process, in order to account for important documents and approvals during employee turnover and/or transitions.	Yes	NIAR will implement the suggested recommendations.	9/30/2009	Internal Audit accepts Management's response.

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.

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.

Management Response to Audit Review Recommendations Center for Foreclosure Solutions/ Ad Council		
# Of Responses	Response	Recommendation #
1	Agreement with the recommendation(s)	# 1
0	Disagreement with the recommendation(s)	N/A

I. Executive Summary

NeighborWorks® Center for Foreclosure Solutions (CFS) entered into an agreement in 2006 with the National Ad Council Campaign (Ad Council) to inform the public to seek assistance for those who might be facing foreclosure. This assistance would be in the form of professional counseling for those seeking to save their homes. In an attempt to reach all of those confronting foreclosure, mass advertising was implemented. This advertising was done in English and Spanish broadcast television and English and Spanish radio. In addition, advertising was placed in the newspapers, magazines, outdoor, transit and web advertisement.

II. Objective

Generally, the objectives of the audit were to confirm that appropriate controls and procedures were in place within NeighborWorks® America and the Center for Foreclosure Solutions/Ad Campaign. In addition, we validated that the operation of the program was within the guidelines of the contract established between NeighborWorks® America and the Center for Foreclosure Solutions/Ad Campaign.

III. Scope

The scope of the audit was limited to the design and execution of invoicing from the Ad Council to NeighborWorks® America. This process ensured all invoices were approved by the authorized person(s) and were directly related to the program. In addition, the approval process for Public Service Announcement (PSA) content was also reviewed.

IV. Background

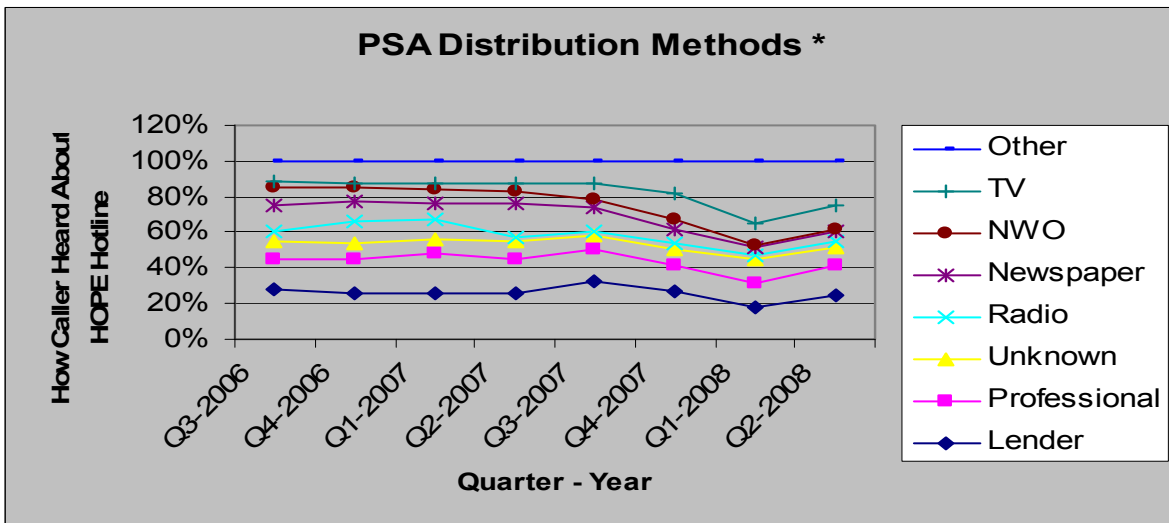
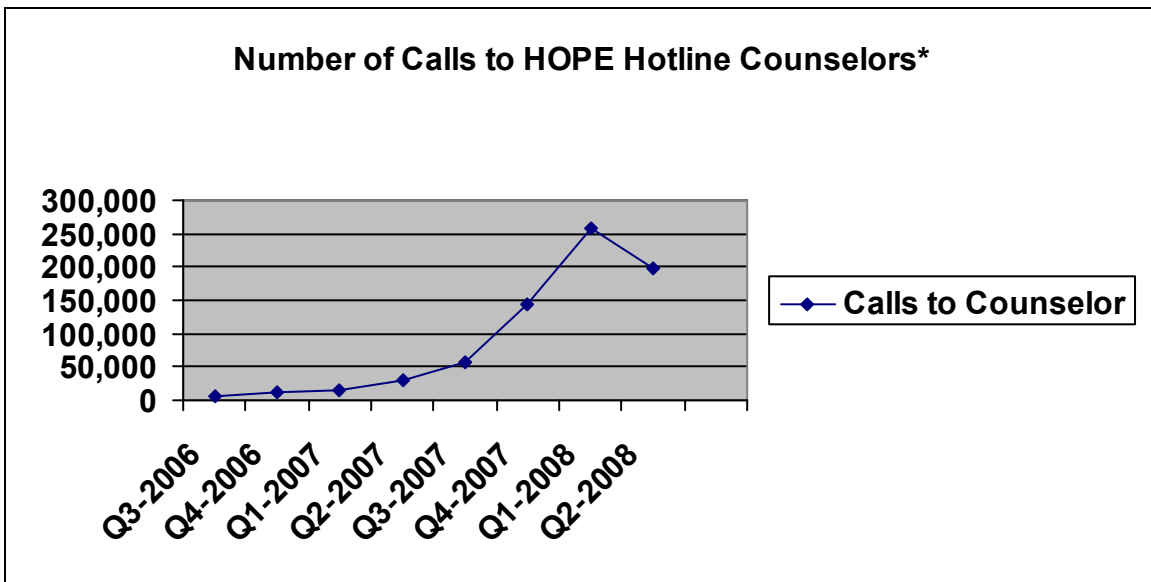
On June 2, 2006, NeighborWorks® America signed a three year contract with The Advertising Council, Inc. The main objective was to reach out to as many people as possible in need of intervention and have them call for guidance to prevent foreclosure. The contract was for the preparation and placement of advertising for a housing foreclosure prevention public service campaign. The Ad Council required a three year commitment in order to undertake the design, development, publication and broadcast to follow through on it's Public Service Announcement (PSA's) campaigns. The agreement will automatically renew from year to year on the twelve (12) month anniversary of commencement unless either party gives a ninety (90) day written notice to the other party.

The review of the Center for Foreclosure Solutions/Ad Campaign program consisted of the following:

- Obtain an understanding of the PSA/ advertising content approval process;
- Obtain copies of prior written approval for all invoices over \$25,000;
- Ensure all invoices payments are net cost;
- Supporting evidence is present for all invoices reviewed;
- Confirm all invoices are paid in a timely manner, eliminating any late fees; and
- Validate that all invoices are properly approved.

It should also be noted that between the periods of July 2006 (Q3-2006) through September 2007 (Q3 – 2007) the airing of the PSA’s were relatively steady and could be positively correlated with the increase in telephone call volumes to the HOPE Hotline. From October 2007 – December 2007 (Q4 2007), there was a significant increase in airing of the PSA’s and the volume of calls to the HOPE Hotline increased over 40%. We did note however that from January 2008 – June 2008 (Q1 - Q2 2008), there was a decrease in TV, radio and newspaper ads, and a corresponding decrease in the number of calls to the HOPE Hotline. The decrease, as we understand, was mainly due to increased air time for advertising related to the 2008 Olympic games and the U.S. Presidential Campaigns.

The following chart is a brief illustration which notes the correlation between the variety of distribution methods of the PSA’s and the number of people who called the HOPE Hotline in order to obtain helpful information for foreclosure and late mortgage counseling assistance:



* Data obtained from quarterly reports, prepared by the Homeownership Preservation Foundation.

V. METHODOLOGY

Internal Audit requested and obtained the Detail Balance sheet for Ad Council campaign. A judgmental sample was then selected from the 102 invoices paid from September 2006 to June 30, 2008. IAD selected 20 invoices to be tested, which is approximately twenty (20) percent of the population. The Trial Balance sheet obtained from Finance indicated that a total of \$1,817,939.99 had been invoiced and submitted for payment between 9/22/06 to 6/30/08. The sample selected totaled \$708,881.23, which was approximately forty (40) percent of all invoices submitted for payment. Internal Audit was informed by the Director of Homeownership Programs that the approval process was generally performed at meetings as part of discussion with the responsible business units, the Corporation's officers, and the CFS Advisory Committee.

VI. OBSERVATIONS

1. It was observed that the contract between The Advertising Council and NeighborWorks America dated June 2, 2006 under section #2—Approvals (a) states in part, *expenditures in excess of \$25,000 shall require your prior written approval. (See Appendix A)* The sample selected for testing yielded five (5) invoices over \$25,000. We were unable to obtain written approvals by the project manager as requested by contract requirements. However final approvals through Finance were in order. It should also be noted that the National Center for Foreclosure Solutions project manager who was primarily in charge of maintaining these approvals was no longer with the corporation, therefore making it difficult to obtain these approvals, which were mostly maintained via emails.

VII. RECOMMENDATIONS

1. It is recommended that the Corporation conform to contract requirements (between the Ad council and NeighborWorks America) by having written internal approvals by the project manager for all expenditures in excess of \$25,000, prior to the expense being incurred. Copies of these records should be maintained for documentation purposes in order to conform with contract requirements. Furthermore, the department should establish an information and communications transitional process, in order to account for important documents and approvals during employee turnover and/or transitions.

Conclusion: Based on the testwork performed, appropriate controls and procedures were adequately in place for the Center for Foreclosure Solutions/ Ad Council approval of PSA's and expenses. We would like to extend our appreciation to the National Homeownership Program team and the Division of Development and Communications for their assistance during our review.

Appendix A

THE ADVERTISING COUNCIL, INC.
261 Madison Avenue
11th Floor
New York, NY 10016-2303

Dated: June 2, 2006

SPONSOR/CLIENT: NeighborWorks America
1325 G St., NW, Suite 800
Washington, DC 20005-3100

Attention: Kenneth Wade, Chief Executive Officer

Dear Mr. Wade:

This constitutes a mutual cooperation agreement between The Advertising Council, Inc. (herein "we" or "Ad Council") and NeighborWorks America (herein "you") with regard to the preparation and placement of advertising for a housing foreclosure prevention public service campaign (herein "campaign"). This agreement is effective June 2, 2006, and supersedes and replaces all prior written and oral agreements.

1. Services and Duties

The Ad Council shall assist you in the development of your public service advertising (PSA) campaign, and you agree to use your best efforts to aid us by providing information relating to your organization and its goals, by acknowledging the contributions of the Ad Council and by giving us your full cooperation in expediting our work. You understand that, except as provided in Paragraph 3(e) and (f), much of the manpower resources contributed by the volunteer advertising agency (herein "Volunteer Ad Agency") and the campaign adviser are without cost to you. Your PSAs will also be broadcast or placed in donated media time and space.

2. Approvals

(a) We shall obtain your approval before releasing the PSAs created under this agreement to the media and before committing to expenditures. If possible, approvals will be in writing, but approvals may be oral with written confirmation, such as via conference report or e-mail, to follow. Expenditures in excess of \$25,000 shall require your prior written approval.

(b) No advertising created or produced by us for you will be produced or used without your prior approval, except as provided in Section 7(e).

(c) We shall seek your approval prior to the final selection of a Volunteer Ad Agency to work on your account.

(d) We agree to meet with you via teleconference or in person regularly to report the status of the project.

(e) Each party hereto shall designate a primary contact person with and through whom the parties shall direct all inquiries and communications, including approvals required pursuant to this Section 2. You designate [REDACTED] as your primary contact person. Ad Council designates [REDACTED] as its primary contact person.