

Internal Audit Division  
NeighborWorks® America

# **Audit Review of Sub-Recipient Monitoring**

Project Number: NW.OAD.SUBMNTR.2018

# **Audit Review of Sub-Recipient Monitoring**

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October 31, 2018

To: NeighborWorks America Audit Committee

Subject: **Audit Review of Sub-Recipient Monitoring**

Attached is our draft audit report for the Sub-Recipient Monitoring review. Please contact me with any questions you might have.

Thank you.

Frederick Udochi  
Chief Audit Executive

Attachment

cc: M. Rodriguez  
R. Bond  
R. Simmons  
S. Rice

**Function Responsibility and Internal Control Assessment  
Audit Review of Sub-Recipient Monitoring**

<b>Business Function Responsibility</b>	<b>Report Date</b>	<b>Period Covered</b>
Organizational Assessment Division & Field	October 31, 2018	10/1/2015 through 6/27/2018
<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>Generally Effective</b>	

This report was reissued February 15, 2024 in accordance with a recommendation by the Government Accountability Office (GAO-23-105944, June 14, 2023).

<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><b>Risk Rating:</b> 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 The Audit Review of: Sub-Recipient Monitoring</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 Uniform Guidance is the OMB regulation that addresses sub-recipient monitoring requirements. This guidance is applicable to NeighborWorks America as the organization receives federal funds and distributes these funds in the form of grants. However, due to the language in NeighborWorks Congressional charter some flexibility in the implementation of the guidance has been allowed. The activity of sub-recipient monitoring is reviewed periodically by the Corporation's external auditor as a part of The Uniform Guidance compliance.

The external auditors, Clifton Larsen and Allen (CLA); in their Management Letter and A133 Report for FY 2015, identified two findings related to the sub-recipient monitoring process. In July of 2016 Internal Audit conducted a review of the process and noted that Management was still in the process of implementing recommendations that were made by CLA.

Network organizations receive annual reviews of their audited financial statements and are monitored for performance against PROMPT metrics quarterly. The sub-recipient monitoring is an ongoing, mature, and robust process that falls under the Organization Health and Tracking System. The bulk of grants are offered to network organizations only and are tied to the performance metrics. In addition, under-performing organizations can be removed from the network. Non-network organizations have a process that is less robust and is more manual intensive with regard to monitoring. For these reasons, Internal Audit focused the audit around the non-network sub-recipient monitoring.

## **Objective**

The objective of this review was to obtain reasonable assurance:

- that the non-network sub-recipient monitoring process is efficient and effective
- that recommendations from the FY15 CLA Management Letter have been implemented

## **Scope**

Internal Audit conducted a review of requests for non-network organization (Non-NWO) analysis that were received by Organizational Assessment department (OAD) between 10/1/2015 and 6/27/2018. Network organizations were excluded from the scope as there is a robust process in place by which NeighborWorks monitors the organizations within the network inclusive of the completion of annual audit compliance assessments.

## **Methodology**

Internal Audit met with OAD to confirm its understanding of the sub-recipient monitoring process. Internal Audit reviewed current policies and procedures related to the process which had been updated to be inclusive of updated sub-recipient monitoring language, conducted a walk-through of the process to further assist in the understanding of the process, reviewed documentation related to the work performed by consultants as a result of external auditor findings, and the OGC memo dated December 1, 2016 re: Applicability of 2 CFR 200 to Sub-recipient Monitoring by NeighborWorks America. Internal Audit also met with Management to

discuss the implementation of FY2015 external auditor recommendations; inquire about any finding that may have been identified subsequent to FY15, as well as progress made on the current fiscal year external audit. Detailed testing was conducted to determine if the process is being effectively and efficiently undertaken and that previous recommendations have been fully implemented.

Internal Audit began the detailed testing by first obtaining a list of requests that had been received by OAD to perform non-network financial analyses. In addition, a listing of grants that were paid in the fiscal year was obtained. Non-network organizations that appeared on both lists were included in the sample. The remaining sample was selected from the list of requests using Excel random number generator. For each sample selected Internal Audit reviewed the financial analysis completed by OAD inclusive of supporting documentation to obtain reasonable assurance that the OAD review was completed in compliance with updated policies and procedures.

Internal Audit also obtained and reviewed the excel workbook that Field uses to track non-network reporting requirements post award. Internal Audit reviewed the listing of FY 2017 non-network grantees and judgmentally selected the sample. The sample selected included non-network grantees that had reporting due dates prior to 9/30/2018 and award amounts above \$35,000. The sample was reviewed to ensure compliance with updated policies and procedures.

### **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 sub-recipient monitoring process found that the observations and recommendations identified by the external auditors appear to have been implemented and language has been included in the policies and procedures to address the monitoring of non-network sub-recipients in greater detail. Based on the review, the non-network sub-recipient monitoring process appears to adhere to the updated policies and procedures. Our interactions with OAD and Field team were collaborative and productive. We would like to extend our thanks to the Senior Vice-Presidents and teams for their cooperation and assistance during this review.