



Issue Date February 16, 2011

Audit Report Number 2011 BO 1004

TO: Vicki B. Bott, Deputy Assistant Secretary for Single Family Housing, HU

FROM: 
John A. Dvorak, Regional Inspector General for Audit, Region 1, IAGA

SUBJECT: The Neighborhood Assistance Corporation of America Generally Administered
Its HUD Grants Used for Housing Counseling Activities in Accordance With
HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Neighborhood Assistance Corporation of America (NACA), a Department of Housing and Urban Development (HUD)-approved organization providing housing counseling services to qualified home buyers or homeowners with unaffordable mortgage payments. The audit was initiated at the direction of HUD's Inspector General. Our audit objective was to determine whether NACA properly administered its HUD grants used for housing counseling activities in accordance with HUD requirements. Since HUD has the responsibility to approve and ensure compliance with counseling requirements, the audit did not evaluate NACA's initial and continued approval as a counseling agency.

To achieve our objective, we determined whether (1) NACA provided counseling services in accordance with the HUD grants and properly addressed client complaints; (2) HUD funds were properly accounted for and used to pay only counselor salaries; (3) NACA's process for documenting and reporting program results/outcomes complied with HUD grant requirements; (4) NACA staff was adequately trained and experienced in housing counseling and whether management staff adequately monitored the work of the counselors; and (5) NACA complied with HUD disclosure and conflict-of-interest requirements.

What We Found

NACA generally administered its HUD grants used for housing counseling activities in accordance with HUD requirements. With respect to HUD's conflict of interest disclosure requirements, NACA adequately informed its counseling clients of its relationships with major industry partners. However, NACA needs to resolve issues raised by HUD with respect to how it discloses relationships that its local offices may have with local industry partners, such as lenders and realtors. This report discusses each area audited as indicated above to achieve our objective. This report contains no recommendations because HUD has already asked NACA to identify every industry partner with which NACA has a financial relationship, and amend their disclosures to fully disclose these arrangements. Therefore, no further action is necessary with respect to our report.

Auditee's Response

We provided NACA and HUD officials with a discussion draft report on November 17, 2010 and held an exit conference with NACA on November 19, 2010. NACA did not provide formal written comments because the report contained no recommendations. Subsequent to issuing the discussion draft report, HUD officials met with us and relayed a number of concerns regarding NACA. Those concerns were formalized in a letter to NACA dated December 21, 2010. We performed additional audit work based on HUD's letter and the additional information HUD provided regarding consumer complaints against NACA and determined that additional information was either unrelated to NACA's administration of the HUD grants, or did not significantly impact our audit conclusion. Although OIG's review did not disclose any significant systemic deficiencies or concerns regarding NACA's administration of the Housing Counseling grant, HUD's Office of Single Family has pending issues that they are continuing to address with NACA.

We provided NACA with a second draft audit report on February 9, 2011, and held a second exit conference on February 14, 2011 to discuss the draft report. NACA choose not to submit formal comments on the report, but indicated it generally agreed with the report.

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BACKGROUND AND OBJECTIVE

The Neighborhood Assistance Corporation of America (NACA) is a nonprofit home ownership organization providing housing counseling services to low-to-moderate-income people who will live in communities that need increased home ownership and improvement or people who have difficulty obtaining reasonable and affordable credit.

The Chief Executive Officer started the organization approximately 30 years ago. The NACA headquarters office is located in Jamaica Plain, MA, a neighborhood within Boston. There are 38 sub-offices located throughout the country with approximately 789 counselors. Of the 789 counselors, 549 are located at NACA's Charlotte, NC, counseling center. The counselors in Charlotte perform counseling exclusively by telephone, whereas counselors in all other locations conduct one-on-one or face-to-face counseling. Payroll and other financial transactions are processed exclusively through NACA's headquarters in Jamaica Plain, MA. NACA received two U.S. Department of Housing and Urban Development (HUD) grants of more than \$1.1 and \$1.2 million in October 2008 and October 2009, respectively, to be used to pay salaries of counselors. The NACA counselors provided two types of counseling activities: prepurchase home-buyer counseling (purchase program) and assisting with resolving or preventing mortgage delinquencies (Home Save program).

All clients counseled are provided a purchase participation agreement to review and sign, and under this agreement, the clients can elect either to be a NACA member or a nonmember. A nonmember may participate in a group counseling workshop and obtain prepurchase counseling but is not charged fees for counseling activities. However, for those trying to obtain a mortgage through NACA, there is a minimal \$20 yearly fee per household. In addition, for homeowners who have purchased a home through the NACA program, there is a membership fee of \$50 per month over a period of up to 10 years.

Under the Home Save program, HUD funds pay counselors to evaluate a client's existing mortgage and document a budget to determine an affordable mortgage amount. The counselor determines the budget based on the client's income verifications, liabilities taken from the client's credit report, and expenses. The counselor reviews the affordable mortgage payment and develops a solution, such as initiating a repayment plan, forbearance agreement, or traditional mortgage modification. The HUD grant pays for counseling only up to the point at which the counselor develops a solution and the client's file is ready for submission to a lender/servicer.

All clients counseled are provided a participation agreement to review and sign, and under this agreement, the clients can elect either to be a Home Save member or a nonmember. Neither a NACA member nor nonmember is to be charged a fee for a service provided through the Home Save program. Home Save clients are eligible for a broad range of home ownership services, including extensive written materials regarding home ownership issues and budgeting; homeowner classes, which include important budgeting information; additional telephone and one-on-one financial counseling; and post solution follow-up and assistance. The agreement states that NACA reserves the right to, from time to time, make special assessments on members.

NACA uses an internal client management system called Lynx, which interfaces with HUD's databases for the collection and reporting of agency and client-level data. Lynx automates much of the housing counseling process, including client intake, file maintenance, financial and credit analysis, outreach, client notification, and reporting. Lynx is a paperless system with clients providing documents for scanning. Lynx requires complete information and documentation for determination of an effective and quality counseling session. Lynx tracks information at the individual client level, counselor level, and branch level.

Our audit objective was to determine whether NACA properly administered its HUD grants used for housing counseling activities in accordance with HUD requirements. To achieve our objective, we (1) determined whether NACA clients were provided counseling services in accordance with HUD requirements and whether NACA took proper steps to address client complaints; (2) ensured that HUD funds were properly accounted for and used to pay only counselor salaries; (3) evaluated NACA's process for documenting and reporting program results/outcomes, including determining whether reports were prepared and submitted to HUD in a timely manner, verifying the authenticity of statistics in reporting documents, and determining how outcome/results were quantified and whether they showed that NACA was achieving its goals; (4) determined whether NACA staff was adequately trained and experienced in housing counseling and whether management staff adequately monitored the work of the counselors; and (5) determined whether NACA complied with HUD disclosure and conflict-of-interest requirements.

Our audit scope did not include determining whether NACA met all of HUD's requirements as a counseling agency approved to receive HUD and other federal funding since that was outside of our objective of determining whether NACA properly administered its housing counseling grant. In addition, our audit scope did not include reviewing NACA's activities that were unrelated to and outside of HUD's counseling grant and that occurred after clients were qualified for homeownership borrowing credit or after a mortgage modification or home save/sale solution was submitted by a NACA specialist to a lender/servicer/investor.

RESULTS OF AUDIT

NACA Generally Administered Its HUD Grants Used for Housing Counseling Activities in Accordance With HUD Requirements

NACA generally complied with HUD requirements in administering its fiscal years 2009 and 2010 HUD grants. Specifically, it (1) provided counseling services to clients in accordance with HUD requirements and followed adequate measures to address client complaints, (2) ensured that HUD funds were properly accounted for and used to pay only counselor salaries, (3) prepared and submitted accurate and reliable reports to HUD in a timely fashion and successfully achieved its program goals, and (4) ensured that its staff was adequately trained and experienced in housing counseling and NACA management sufficiently monitored the work of the counselors. However, although NACA informed its counseling clients of its relationships with major industry partners, it needs to resolve issues raised by HUD with respect to how it discloses relationships that its local offices may have with local industry partners, such as lenders and realtors. This report contains no recommendations because HUD has already asked NACA to identify every industry partner with which NACA has a financial relationship, and amend their disclosures to fully disclose these arrangements.

Counseling Services Were Provided in Accordance With HUD Requirements

We determined that housing counseling services provided by NACA were performed in accordance with grant agreements and HUD regulations based on a review of client files supporting counseling sessions in a sample of 20 NACA clients and observations made during two counseling sessions conducted at NACA's headquarters office in Jamaica Plain, MA. The files showed that housing counselors documented the activities required by the grant agreements, including:

- Preparing a budget based on an analysis of the client's income, expenses, spending habits, and use of credit.
- Preparing an action plan that outlined what counselors and the clients would do to meet the client's housing goals.
- Conducting a reasonable discussion of alternatives and options available to the clients and providing a comprehensive "Community Resource Guide," which

included the names of local agencies and organizations, besides NACA, that offered mortgages as well as services related to mortgage modifications and forbearance agreements/repayment plans.

- Making an effort to have follow-up communication with the client to ensure that the client progressed toward his/her housing goals. NACA recently implemented a change in the NACA-Lynx system to better assist clients in progressing toward their housing goal. The NACA-Lynx is now designed to send out an automatic e-mail to a client if there is no update on a client file for 30 days. This e-mail will alert the client and the counselor that there has been no contact received by the client for 30 days and advise the client to contact his/her counselor or office manager/supervisor immediately to ensure completion of outstanding issues.

We conducted interviews with eight of the twenty former NACA clients we attempted to contact. Of the eight, two were pursuing loans and six were looking for assistance under the Home Save program. Of the remaining twelve clients, six relocated and could not be reached and six clients failed to return OIG's repeated phone calls. The eight clients stated they were satisfied with NACA services and found counselors were helpful and supportive during the entire process. For example, one NACA counselor was instrumental in preventing a foreclosure of a client's home and another counselor helped to modify a client's mortgage to what was affordable.

We followed up on 58 client complaints we received from HUD's Office of Single Family Program Development in September and December 2010.¹ The complaints covered the period from July 2008 to November 2010. We determined that 17 of the complaints were related to counseling services covered under the HUD grants.² We found that NACA had made a reasonable effort to address all 17 complaints. Eight of the complaints dealt with NACA's failure to have follow-up communication with clients, but as noted, NACA had implemented a change that should increase communication between counselors and clients. The remaining 41 of 58 complaints involved issues that arose after the client was approved by NACA for qualification of a mortgage or after a NACA counselor developed a solution for the client's current mortgage related problems and the client's file was ready for submission to a lender/servicer. Since NACA counseled more than 59,000 clients from October 1, 2008, to June 30, 2010, we determined the number of housing counseling complaints (less than

¹ We did not determine the extent of the complaints because neither NACA nor HUD maintained a complaint log showing the number of complaints made against NACA regarding the counseling program.

²The complaints included: Lack of communication or follow up between NACA, client and/or servicer (8); Client failed to adhere to NACA policies and procedures (2); non-specific but clients were approved for mortgage modifications (2); and the information provided was too vague and lacked sufficient details to determine the specific complaint or client status (5). NACA does not maintain a file or record of complaints.

one half percent) relating to the housing counseling grant did not warrant an audit finding within the scope of this audit.

HUD Funds Were Supported and Used To Pay Counselor Salaries

We determined that HUD funds were adequately supported and were used only to pay counselor salaries by reconciling drawdowns totaling more than \$1.1 million (fiscal year 2008 grant) to bank statements and payroll records. This was the first grant NACA received from HUD, and the funding represented only 5.94 percent of the total funding (more than \$18.8 million) awarded to NACA in that year for its counseling activities. A review of NACA's allocation method ensured that each counselor was equally weighted in the allocation of salaries to the grant. The HUD funding contributed \$1,419 toward each counselor's annual salary, which translated to an hourly rate of \$0.68 paid to each counselor for counseling services.

Program Results Showed That NACA Was Achieving Its Goals

We determined that NACA's system for documenting and reporting program results and outcomes was adequate. The quarterly reports (HUD form 9022) and quarterly logic models (HUD form 96010) were properly prepared and submitted in a timely manner to HUD. The quarterly reports and quarterly logic models show goals accomplished, such as the number of people purchasing a home or pursuing a mortgage modification. We verified the authenticity of statistics by reconciling data from the fiscal year 2009 quarterly report to documents generated from NACA-Lynx. When comparing NACA's counseling volume, including workshops, attributed to the HUD grant in all of 2009 (35,034), NACA's counseling volume for just the first two quarters of 2010 (58,087) had already exceeded 2009's counseling volume.

As previously stated, the NACA benchmark for a successful outcome or the achievement of a goal occurs when a client receives one-on-one counseling. Compared to counseling attributed to the HUD grant reported on the 2009 quarterly report, NACA's counseling statistics for just the first three quarters of 2010 had already exceeded last year's counseling activity (see table below).

Activity	FY 2009	Oct. 2009 to June 2010	Change
Purchased housing	32	39	7
Mortgage ready in 90 days	499	746	247
Other - purchase program	5	0	<5>
Mortgages modified	8,272	22,425	14,153
Initiated forbearance agreement/repayment plan	459	423	<36>
Currently receiving foreclosure prevention/budget counseling	6,655	20,052	13,397
Total clients receiving one-on-one counseling	15,922	43,685	27,763

The recipients of HUD housing counseling grants are also required to report activities under the grant in a format prescribed by HUD, namely quarterly logic models. The logic model established specific goals attributed to the relevant grant and includes designated time frames required by the grant agreement. Our review of logic models showed that NACA exceeded its goals. For NACA's first goal of providing information and advice regarding home buying and home ownership, NACA projected that it would counsel 551 households for fiscal year 2009. In just the first quarter of 2009, 306 households were counseled, which is 55 percent of NACA's goal. NACA's second goal was to provide information and advice regarding resolving or preventing mortgage delinquency or default. NACA projected that it would counsel 551 households during the year, and in the first quarter, 391 households were counseled, which is about 71 percent of its goal.³

**Counselors Were Adequately
Trained and Experienced and
Counselor Activities Were
Properly Monitored**

HUD Handbook 7610.1, states that a housing counseling agency must employ staff trained in housing counseling and at least half of the counselors must have at least six months experience in the job they will perform in the agency's housing counseling program. NACA's 2008 grant application indicated that staff was experienced in housing counseling with an average of 5.5 years of housing counseling-related experience. We obtained a listing/schedule of the years of counseling experience by counselor which showed counselors' years of experience outside of NACA and the years of experience in one-on-one

³ NACA submits goals for its counseling program to HUD through the annual logic model (HUD Form 96010) as part of the application process. Subsequently, the goals are approved by HUD as part of the grant.

counseling with NACA. A review of a sample of personnel files substantiated that one-half of the NACA counselors had at least 6 months' experience in one-on-one counseling with NACA alone. We also observed training certificates for counselors whose counseling sessions OIG observed at NACA's headquarters office in Jamaica Plain, MA. In addition, NACA provides 50 hour live classroom education required within 45 days of hire for all counselors. Other forms of training include weekly conference calls, powerpoint presentations, and web-based conferences for all staff nationwide with management to further develop counseling skills and education.

NACA's quality control staff ensured that counseling activities were performed in compliance with HUD Handbook 7610.1, which stipulates that supervisors must review client files to determine the adequacy and effectiveness of the housing counseling and document results. We determined that NACA complied with these requirements through our review of logs maintained by supervisors to document and track counselor work activities and performance. In addition, we reviewed reports documenting supervisor evaluations of specific counseling sessions. NACA procedures state that a counselor's written narrative and recorded phone calls are reviewed and rated to ensure that the counseling is comprehensive, accurate, and professional, and grades based on these ratings are posted in the Lynx system.

NACA's Conflict of Interest Disclosures Informed Clients of Relationships with Major Industry Partners

NACA provided its clients with a disclosure statement/participation agreement that described the various types of services provided and identified entities with which NACA had a financial relationship. The disclosure statement stipulated that NACA had agreements with major servicers and investors to restructure loans by reducing the interest rate to a mortgage payment the client could afford. The disclosure further stated that the client was not obligated to receive any other services offered by NACA or its exclusive partners. In addition, the disclosure provided information on alternative services, programs, and products. One of the options included in the disclosure statement involved the short sale designed for clients at risk of foreclosure. All clients whose files we reviewed signed the disclosure document acknowledging that they were informed about what was contained in the document.

We assessed a concern stated by HUD as to whether or not a potential conflict of interest existed because NACA provides both counseling services and mortgage brokerage services to its clients. HUD had also expressed concerns about the fact

that NACA receives funds from other entities and was using those funds to compensate counselors. While this was not a major component of our audit, we did assess these concerns. Our legal counsel researched the conflict of issue provisions related to housing counseling services and reached the following conclusions.

Housing counseling services are governed generally by 24 CFR Part 214 and HUD Handbook 7610.1. Conflict of interest matters are specifically addressed at 24 CFR § 214.303, and HUD Handbook paragraph 6-2. In drafting its conflict of interest regulation, HUD clearly contemplated circumstances in which housing counseling agencies would provide more than just housing counseling services⁴. In response to a comment suggesting that the definition of a conflict of interest should not prevent housing counseling agencies from providing opportunities in mortgage underwriting, pricing, houses, or services to its clients, the preamble to HUD's final rule implementing the Housing Counseling Program clearly states that HUD "believes the conflicts of interest requirements should not limit the housing counseling agency from providing additional, related services. Therefore, HUD has revised the conflicts of interest provision to allow for additional flexibility in agency activities."⁵ Moreover, HUD revised the proposed rule to clarify that it intended to allow employees of housing counseling agencies to provide additional related services as long as the provision of those services were occurring as part of an employee's employment with the housing counseling agency.⁶

24 CFR Section 214.303(f)(1) and HUD Handbook 7610.1, paragraph 6-2.B. generally prohibits a NACA employee from engaging in activities that create a real or apparent conflict of interest. Such a conflict would arise if the employee has a direct financial interest in the client. Our audit found no instance where a NACA counselor obtained a direct financial interest in the client (the person being counseled) such as being the client's landlord, broker, creditor, underwriter of a mortgage, or collection agent as to the property. The audit found that the counselors employed by NACA were just that, NACA employees. The audit found no violation of this conflict of interest regulation.

24 CFR Section 214.303(f) (2) and Handbook 7610.1 paragraph 6-2.C. prohibit a NACA employee from referring clients to mortgage lenders, brokers, builders, or real estate sales agents or brokers in which the employee has a financial interest,

⁴ See 24 CFR 214.303(f)

⁵ See 72 FR 55638, 55644

⁶ Conclusion based upon a comparison of section 214.303(e) in the proposed rule, 69 FR 77118 to section 214.303(f) in the final rule, 72 FR 55638. Further, HUD's "Application for Approval as Housing Counseling Agency" reaffirms that HUD fully anticipated that some housing counseling agencies would engage in additional, related services and that doing so would not necessarily disqualify them from serving in such a capacity. The application asks to "Describe any other housing programs or activities the applicant agency and branches or affiliates offer. Examples include administering down payment assistance programs, developing housing projects, managing apartment buildings, rehabilitating and reselling HUD homes, and selling real estate." See form HUD-9900, section B, Part 1, subsection 5.

or accepting a fee or any other consideration for referring a client to mortgage lenders, brokers, builders, or real estate sales agents or brokers. The audit did not find any evidence that the counselors received a fee or other compensation directly from NACA partners for informing the clients about NACA related services and did not find any “steering” of clients to NACA-related entities. Accordingly, the audit found no violation of this conflict of interest regulation.

HUD Needs to Assess NACA’s Disclosures of Its Relationships with Local Industry Partners

24 C.F.R. Section 214.303(g) and Handbook 7610.1 paragraph 4-10.G. require NACA to provide all clients with a disclosure statement that explicitly describes the various types of services provided by the agency and any financial relationships between the agency and any industry partners. The very fact that the disclosure rules require disclosure of any financial relationships between NACA and other industry partners, such as lenders, realtors, and perhaps title and escrow companies, demonstrates that such relationships were anticipated by HUD and are permissible, so long as they are fully disclosed. The disclosure rules also require that when clients are counseled, they be advised that they are under no obligation to receive any other service provided by the agency or its exclusive partner. Furthermore, the agency must provide information on alternative services, programs, and products. The audit found that NACA generally provided the above disclosures with regard to its major industry partners and is generally meeting the disclosure requirements with respect to those partners.

However, NACA disclosures did not list individual industry partners having a relationship with its local offices, particularly smaller entities or individuals, such as real estate agents. In responding to this issue that was raised by HUD during its monitoring reviews, NACA stated that its industry partners were constantly changing so they could not continually update the disclosure statements to reflect all financial relationships with the specific entities. Also, NACA further contends that it is meeting its disclosure obligations by generally disclosing that they are mortgage brokers and receive fees from various partners for home purchase loans, restructuring/modifying loans, and real estate activities. Moreover, it contended that maintaining and keeping such lists current would be unreasonable and administratively difficult. Whether or not this disclosure meets applicable requirements is ultimately for HUD to determine. Our audit did not address the extent to which such local relationships may exist and was limited to assessing the content of NACA’s standard disclosures. However, if financial relationships between the local partners and the local NACA office exist and the specific partners are not identified, NACA’s standard disclosure might not meet the regulatory requirement.

Although OIG's review did disclose a potential deficiency regarding NACA's standard disclosure, HUD's Office of Single Family had formalized and addressed this issue in the letter they sent to NACA dated December 21, 2010. Therefore, this report does not contain any recommendations regarding the potential deficiency identified since HUD has already asked NACA to identify every industry partner with which NACA has a financial relationship, and amend NACA's disclosures to fully disclose these arrangements.

Conclusion

NACA generally complied with HUD requirements in administering its fiscal years 2008 and 2009 HUD housing counseling grants. Specifically, it (1) provided counseling services to clients in accordance with HUD requirements and followed adequate measures to address client complaints, (2) ensured that HUD funds were properly accounted for and used to pay only counselor salaries, (3) prepared and submitted accurate and reliable reports to HUD in a timely fashion and successfully achieved its program goals, and (4) ensured that its staff was adequately trained and experienced in housing counseling and counseling activities were sufficiently monitored. However, there is a potential deficiency regarding NACA's standard disclosure, namely a possible failure by NACA to include all local partners with which it has financial relationships with in its standard disclosure as required by regulation. Since HUD has already asked NACA to identify every industry partner with which NACA has a financial relationship, and amend its disclosures to fully disclose these arrangements, this report does not contain any recommendations regarding this potential deficiency and requires no further action with respect to this report.

SCOPE AND METHODOLOGY

We performed our audit work between August and October 2010. We completed our fieldwork at the auditee's office located at 3607 Washington Street, Jamaica Plain, MA. Our audit covered the period October 1, 2008, through September 30, 2010, and was extended as necessary to meet our audit objectives. To complete our audit, we

- Researched and reviewed applicable HUD handbooks, regulations, grant agreements, and HUD notices.
- Reviewed NACA's policies and procedures related to housing counseling and reviewed the organization's monitoring policies and procedures to ensure that they were consistent with HUD requirements.
- Interviewed NACA, and HUD program staff.
- Evaluated the internal controls and conducted sufficient tests to determine whether controls were functioning as intended, including making an assessment of the reliability of financial data.
- Reviewed independent auditors' reports.
- Evaluated NACA's computer system (NACA-Lynx) to determine the nature of the system, extent of use, NACA's experience with the computer system, its ability to operate and maintain the system, how access to the system is controlled, who assigns access, and how results are monitored.
- Traced two Line of Credit Control System drawdowns totalling more than \$1.1 million to bank statements and operating accounts and reconciled amounts from operating accounts to payroll records.
- Evaluated NACA's allocation method and determined the amount of HUD funding allocated per counselor.
- Evaluated NACA management practices for monitoring counselor activities and determined whether staff was adequately trained and experienced in counseling activities. We tested the years of counselors' experience by selecting the first ten counselors as their names appeared on a listing/schedule showing years of experience by counselor to experience shown on staff resumes and other documents from personnel records.
- Evaluated NACA's counseling sessions for assurance that counseling was performed in accordance with HUD rules and regulations. We selected a random sample of 20 identification (ID) numbers generated by NACA's computer system and representing an intake counseling session for individuals either pursuing home ownership (5) or a mortgage modification /forbearance agreement (15). The sample size of 20 was obtained from a universe of 6,245 ID numbers that represented intake or new counseling activity that took place in June of 2009 for all NACA sub offices. The universe was too large for a 100 percent selection and there was insufficient information available to make a risk-based selection. Based on discussions with NACA staff, June of that year was least likely to include counseling activity from a "Save the Dream" event. Any of these events would include massive counseling sessions, and our universe was large enough without having to include such an event.

- Verified the authenticity of data in HUD 9022 reports and logic models and determined whether reports were submitted to HUD in a timely manner and whether NACA achieved its goals established for counseling activities.
- Determined whether NACA complied with HUD disclosure and conflict-of-interest requirements.
- After the November 2010 draft report was issued, we performed additional audit work as follows: interviewed HUD general counsel staff regarding their position on NACA conflict-of-interest issues; reviewed and evaluated separate performance reviews HUD conducted at 18 NACA sub offices; conducted interviews with eight of the 20 clients whose files were initially subject to OIG review; and reviewed all HUD provided client/congressional complaints on NACA and evaluated NACA's efforts to address the counseling related complaints.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Procedures to ensure that HUD funds are properly accounted for and used to pay only counselor salaries.
- Procedures to reasonably ensure that clients are provided counseling services in accordance with HUD requirements.
- Procedures to ensure that program outcomes/results are reported accurately and in a timely manner.
- Procedures to ensure compliance with HUD disclosure and conflict-of-interest requirements.
- Procedures to ensure that staff is adequately monitored.

We assessed the relevant controls identified above.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of NACA's internal controls.