



**The National Foundation for Credit Counseling,
Washington, DC, Generally Met HUD
Requirements But Did Not Always Ensure That
Home Equity Conversion Mortgage Counseling
Requirements Were Met**



Issue Date: July 31, 2012

Audit Report Number: 2012-PH-1010

TO: Charles S. Coulter, Deputy Assistant Secretary for Single Family Housing, HU
//signed//
FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region,
3AGA
SUBJECT: The National Foundation for Credit Counseling, Washington, DC, Generally Met
HUD Requirements But Did Not Always Ensure That Home Equity Conversion
Mortgage Counseling Requirements Were Met

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the National Foundation for Credit Counseling, Washington, DC.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (215) 430-6729.



July 31, 2012

The National Foundation for Credit Counseling, Washington, DC, Generally Met HUD Requirements But Did Not Always Ensure That Home Equity Conversion Mortgage Counseling Requirements Were Met

Highlights

Audit Report 2012-PH-1010

What We Audited and Why

We performed an audit of the National Foundation for Credit Counseling based on a citizen's complaint alleging that it misused Federal funds. Our objective was to determine whether the Foundation complied with U.S. Department of Housing and Urban Development (HUD) requirements when administering its housing counseling program.

What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require the Foundation to (1) remit to HUD from non-Federal funds ineligible funds totaling \$46,850, (2) provide documentation demonstrating that \$28,771 was used for eligible housing counseling expenditures or repay HUD from non-Federal funds, and (3) provide documentation demonstrating that housing counseling fees totaling \$525 met housing counseling documentation requirements or repay HUD from non-Federal funds. We also recommend that the Foundation follow grant agreement requirements, maintain documentation to ensure that expenditures charged to the grant are adequately supported, and implement improved monitoring procedures.

What We Found

The complaint alleging that the Foundation misused Federal funds could not be substantiated. The Foundation generally complied with HUD requirements when administering its housing counseling program. However, it did not always ensure that home equity conversion mortgage (HECM) counseling requirements were met. Specifically, it did not always ensure that HECM (1) counselors met eligibility requirements, (2) counseling expenditures were adequately supported, (3) counseling documentation requirements were followed, and (4) counseling funds were disbursed in a timely manner. The above conditions occurred because the Foundation did not have adequate monitoring procedures to ensure that subgrantees complied with requirements.

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BACKGROUND AND OBJECTIVES

The National Foundation for Credit Counseling was founded in 1951. It is the Nation’s largest and longest serving nonprofit credit counseling organization and one of the U.S. Department of Housing and Urban Development’s (HUD) largest national housing counseling intermediaries.¹ The Foundation’s vision is to create a national culture of financial responsibility. Its mission is to promote the national agenda for financially responsible behavior and build capacity for its members to deliver the highest quality financial education and counseling services. The Foundation has 109 member agencies and 855 community-based agency offices in the 50 States and Puerto Rico. Foundation members provide financial, credit and housing counseling services, and financial education to more than 2 million clients annually.

The housing counseling program was authorized by Section 106 of the Housing and Urban Development Act of 1968. Section 106 authorizes HUD to provide, make grants to, or contract with public or private organizations to provide a broad range of housing counseling services to homeowners and tenants to assist them in improving their housing conditions and meeting the responsibilities of tenancy or home ownership. The regulations prescribe the procedures and requirements by which the housing counseling program will be administered. These regulations apply to all agencies participating in HUD’s housing counseling program.

Between fiscal years² 2009 and 2011, the Foundation entered into grant agreements with HUD to carry out housing counseling activities. The Foundation received \$9.6 million through HUD’s Line of Credit Control System for its housing counseling program.

Grants awarded	Fiscal year 2009	Fiscal year 2010	Fiscal year 2011	Total funds awarded
Comprehensive ³	\$1,623,570	\$1,562,309	\$791,404	\$3,977,283
Home Equity Conversion Mortgage	1,845,711	2,455,967	1,140,919	5,442,597
Loan review	0	150,000	0	150,000
Totals	\$3,469,281	\$4,168,276	\$1,932,323	\$9,569,880

Our audit objective was to determine whether the Foundation complied with HUD requirements when administering its housing counseling program.

¹ A national intermediary is a HUD-approved entity that provides housing counseling services through its branches or affiliates. It also provides administrative and supportive services to its network of affiliates or branches, including but not limited to oversight, pass-through funding, training and technical assistance.

² October 1 through September 30

³ Comprehensive counseling includes counseling for pre-purchase of home, mortgage delinquency prevention, improvement of mortgage terms and home improvement, maintaining rental housing, reverse mortgage and homeless assistance.

RESULTS OF AUDIT

Finding: The Foundation Generally Met HUD Requirements But Did Not Always Ensure That HECM Counseling Requirements Were Met

The Foundation did not ensure that (1) 9 home equity conversion mortgage (HECM) counselors who conducted 380 counseling sessions met eligibility requirements, (2) direct costs charged to the grant were supported, (3) documentation requirements were followed, and (4) counseling funds were adequately supported and disbursed in a timely manner. These conditions occurred because the Foundation did not have adequate monitoring procedures to ensure that sub grantees complied with requirements. As a result, there were no assurances that all grant funds were used to properly counsel HECM clients.

HECM Counselors Did Not Always Meet Eligibility Requirements

The Foundation did not ensure that 9 counselors met eligibility requirements before conducting 380 housing counseling sessions. It paid 3 sub grantees \$46,850 for 380 counseling sessions conducted by the 9 ineligible housing counselors.

Regulations at 24 CFR (Code of Federal Regulations) 206.302 require that HECM housing counseling be provided by counselors listed on HUD's HECM roster. To be placed on HUD's roster, the housing counselor must meet eligibility requirements. The housing counselor must submit an application to HUD, successfully pass the standardized housing counseling examination, receive training and education, and have access to technology so that HUD can track the housing counseling results.

We compared the names of 183 housing counselors to HUD's roster to determine whether they were eligible to perform housing counseling. Nine of the counselors were not listed on the roster as required. These counselors were not on HUD's roster because they failed the standardized HECM examination. The Foundation did not have adequate monitoring procedures in place to ensure that all HECM counselors met HUD requirements. Since the housing counselors did not meet eligibility requirements, the payments to them were ineligible.

Housing Counseling Direct Costs Were Not Always Supported

The Foundation charged \$28,771 to its housing counseling grant although it could not adequately support the direct cost. Paragraph E of the grant agreement required the Foundation to maintain source documentation of direct costs, such as invoices, receipts, canceled checks, and salary reports, to support payment requests.⁴ Although the Foundation provided the line of credit voucher request form, it could not provide any other documentation to support direct costs totaling \$28,771. This occurred because the Foundation did not adhere to the grant agreement requirements.

Counseling Documentation Requirements Were Not Always Followed

The Foundation did not ensure that three sub grantees followed housing counseling documentation requirements for six clients. The fiscal years 2009-2011 grant agreements required housing counselors to perform and document several activities. The grantee agreement required that at a minimum, the housing counselor must perform and document these activities: (1) budget/financial analysis, (2) discuss alternatives, and (3) follow-up. HUD Handbook 7610.1, REV-5, required that a copy of the signed and dated HECM certificate be maintained in the client files. We reviewed 28 client files to determine whether they contained documentation supporting that housing counseling documentation requirements were met. Of the 28 client files reviewed, 6 client files did not contain a signed HECM certificate to ensure counseling requirements were met.

The sub grantee received \$525 in HUD funds for six housing counseling sessions that did not meet HUD requirements. This occurred because the Foundation did not have adequate monitoring procedures in place to ensure that client files contained the required documentation in accordance with HUD guidelines.

Funds Were Not Always Disbursed in a Timely Manner

The Foundation did not disburse \$136,470 in housing counseling funds in a timely manner. The fiscal year 2010 grant agreement required that the Foundation draw down only the amount of cash necessary to meet its actual immediate cash needs. The Foundation was required to disburse the Federal funds for allowable costs within 3 days of receiving the funds from HUD. It did

⁴ Grant agreement number HC09-0012-003, article X, paragraph E

not disburse the funds within the 3-day requirement and held them for more than 6 months. HUD's grant agreement requires that the Foundation disburse the funds in a timely manner to ensure that funds are not held for extended periods of time as well as to ensure that requested funds are supported.

The Foundation requested Federal funds totaling \$136,740 on August 31, 2011. As of December 2011, it had not disbursed the funds to three sub grantees. After we brought this matter to the Foundation's attention, it followed up with the sub grantees. The Foundation received adequate support from two of the three sub grantees; however, the third sub grantee's request totaling \$120,000 was not adequately supported. Therefore, the Foundation did not disburse the funds, and in February 2012, it remitted Federal funds totaling \$120,000 plus interest to HUD as required by its grant agreement.

Monitoring Procedures Needed Improvement

The Foundation was required by its grant agreement to monitor its sub grantees. As part of its monitoring procedures, the Foundation performed desk reviews of the housing counseling reimbursement requests submitted by its sub grantees. However, between fiscal years 2008 and 2011, it monitored only 21 of 68 (31 percent) sub grantees. The remaining 47 sub grantees were not monitored. However, the Foundation did not have adequate documented monitoring procedures.

In March 2011, HUD's Office of Single Family Program Support reviewed the Foundation and found that its monitoring procedures needed to be improved. The Foundation stated that it would improve its monitoring procedures to include performing onsite reviews of all sub grantees within a 2-year period. Our audit determined that the Foundation needed to implement improved monitoring procedures to ensure that its sub grantees' HECM counselors met eligibility requirements and provided housing counseling sessions that met HUD requirements.

Conclusion

Although the Foundation generally met HUD requirements, it did not ensure housing counselors met requirements, direct costs were adequately supported and Federal funds were disbursed in a timely manner. The Foundation did not have adequate monitoring procedures to ensure that HUD requirements were met. Thus, there is an increased risk that housing counseling services provided did not meet HUD requirements. The Foundation should improve its monitoring procedures to ensure HUD requirements are met.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require the Foundation to

- 1A. Remit to HUD from non-Federal funds \$46,850 in ineligible housing counseling costs for the housing counselors that did not meet eligibility requirements.
- 1B. Provide documentation to demonstrate that direct costs totaling \$28,771 were used for eligible housing counseling expenditures or repay HUD from non-Federal funds.
- 1C. Provide documentation to demonstrate that housing counseling fees totaling \$525 met housing counseling documentation requirements or repay HUD from non-Federal funds.
- 1D. Follow grant agreement requirements and maintain documentation to ensure that direct costs charged to the grant are adequately supported.
- 1E. Implement improved monitoring procedures to ensure that sub grantees' housing counselors meet eligibility requirements and provide housing counseling sessions that meet HUD requirements. At a minimum, the monitoring procedures should include procedures to ensure that (1) HECM counselors meet eligibility requirements, (2) adequate documentation is maintained to support housing counseling sessions provided, and (3) sub grantees are consistently monitored.

SCOPE AND METHODOLOGY

We performed our audit work from October 2011 to May 2012. The audit period covered October 2008 through October 2011. We performed our work at the Foundation's offices located Washington, DC, and our office in Baltimore, MD.

To accomplish our audit, we

- Reviewed applicable Federal regulations at 24 CFR Parts 206 and 214, and other HUD housing counseling requirements and notices;
- Interviewed Foundation officials and housing counseling specialists;
- Reviewed housing counseling grant agreements for fiscal years 2008-2011;
- Interviewed HUD Office of Single Family Housing staff and reviewed its monitoring reports;
- Reviewed financial statements, housing counseling voucher request forms, and independent audit reports;
- Reviewed \$2.78 million in housing counseling grant funds disbursed and randomly reviewed 28 housing counseling client files; and
- Reviewed the Foundation's monitoring procedures for its housing counseling program.

From October 1, 2008, to September 30, 2011, the Foundation received \$9.6 million in Federal housing counseling funds. We selected the three highest amounts of funds received from its three HUD housing counseling grants. We reviewed \$2.78 million awarded to 68 sub grantees. Additionally, we selected and reviewed 28 client files for 7 sub grantees that received the highest amount of housing counseling grant awards. We reviewed the training and experience of 183 HECM counselors and 228 comprehensive housing counselors.

To achieve our audit objective, we relied in part on computer-processed data. The data included the Foundation's housing counseling expenditures and other computer-generated data. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

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 objective(s). We believe that the evidence obtained provides 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 objectives:

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

The Foundation did not ensure that

- Housing counselors met eligibility requirements,
- Direct cost charged to the grant were adequately supported,

- HECM documentation and other grant documentation requirements were met, and
- Counseling funds were disbursed in a timely manner.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$46,850	
1B		\$28,771
1C		525
Totals	\$46,850	\$29,296

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS



July 26, 2012

Mr. John Buck
Regional Inspector General for Audit
100 Penn Square East, Suite 10205
Philadelphia, PA 19107

Dear Mr. Buck:

It was a pleasure meeting you at the recent exit interview relating to the HUD OIG survey and subsequent audit of the NFCC Housing Counseling Intermediary. The National Foundation for Credit Counseling, Inc. (NFCC) appreciates the recommendations brought forward by your office. The NFCC continues to strive to be an exemplary intermediary and by implementing the recommendations, we know we are strengthening our management and oversight over our federal awards.

The NFCC generally agrees with the report findings. The NFCC offers the following comments regarding the findings and related corrective action plans:

- The NFCC would appreciate consideration for amending the title of the report to include the fact that the Foundation generally met HUD requirements.
- Of the \$46,850 of ineligible funds relating to HECM counselor eligibility, \$45,750 (98%) related to one agency. The respective agency has extenuating circumstances and believed it had approval from a local HUD office to perform the counseling in a modified manner compared to the HUD guidelines. The NFCC will be remitting the ineligible funds to HUD, but the agency will continue to pursue corroboration of the approval it believed it was working under. The agency is now performing HECM counseling in strict compliance with HUD guidelines. The NFCC has communicated with the members of the intermediary about the HECM eligibility requirements and has incorporated into the internal controls process a review of counselor eligibility for each session submitted for reimbursement.
- The NFCC has strengthened internal controls to ensure that direct costs are properly supported.

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- The NFCC has communicated with the members of the intermediary regarding the client file documentation requirements and, as part of the sub-grantee monitoring program, NFCC staff continues to review samples of client files.
- The NFCC has strengthened internal controls to ensure that Federal funds are disbursed in a timely manner.
- In response to findings in the 2011 HUD Review Report, the NFCC has developed and implemented a robust sub-grantee monitoring program. HUD reviewed the NFCC's detailed monitoring program and cleared all related findings.

Thank you for the opportunity to comment on the draft audit report. Please let me know if you need any additional information.

Sincerely,



Susan C. Keating
President and CEO