



June 2023

COMMUNITY REDEVELOPMENT

Significant
Improvements in
Policies and
Procedures Are
Needed at
NeighborWorks
America

GAO Highlights

Highlights of [GAO-23-105944](#), a report to congressional committees

Why GAO Did This Study

NeighborWorks received an annual appropriation of \$163 million in fiscal year 2021, which accounted for most of its funding, and has around 350 employees. However, past audits have raised questions about its procurement process.

The Joint Explanatory Statement for the Consolidated Appropriations Act, 2022 includes a provision for GAO to review NeighborWorks' compliance with regulatory requirements and internal policies in several areas. This report addresses the extent to which NeighborWorks established effective policies, procedures, and internal controls for procurement, whistleblowers, and audits, among others. GAO analyzed (1) NeighborWorks' policies and procedures in these areas, (2) a nongeneralizable sample of contract files and purchase card transactions from 2019–2021, and (3) whistleblower complaints from 2016–2022. GAO also interviewed current and former staff and conducted five focus groups with current staff.

What GAO Recommends

GAO makes 10 recommendations to NeighborWorks, including improving procurement, whistleblower, and internal audit policies and procedures and providing additional training to staff. NeighborWorks agreed with these recommendations.

View [GAO-23-105944](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or CackleyA@gao.gov.

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COMMUNITY REDEVELOPMENT

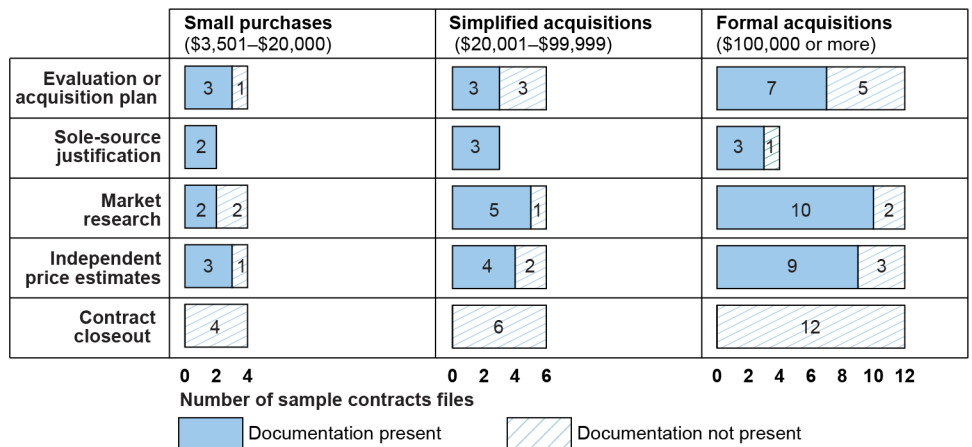
Significant Improvements in Policies and Procedures Are Needed at NeighborWorks America

What GAO Found

The mission of NeighborWorks America, a congressionally chartered nonprofit, is to revitalize neighborhoods. The organization has made progress in establishing policies, procedures, and internal controls relating to procurement, whistleblower complaints, and internal audits. But GAO found weaknesses remain.

Procurement. GAO reviewed a sample of contract files and purchase card transactions and found staff did not consistently follow procurement policies, including for documentation and supervisory approval. NeighborWorks has begun to implement a new procurement system, but the extent to which the new system will address these issues is unclear. NeighborWorks does not provide formal training on its procurement process and made some changes to its procedures without clearly communicating those changes to staff. Providing formal training to staff and clearly communicating changes in policy would help address weaknesses in the procurement process.

NeighborWorks America's Documentation of Selected Required Elements of Sample Contract Files, by Contract Size, Fiscal Years 2019–2021



Source: GAO. | [GAO-23-105944](#)

Note: For more details, see figure 2 in [GAO-23-105944](#).

Whistleblowers. NeighborWorks has a new whistleblower policy, but it does not include procedures for investigating complaints or criteria for who will conduct investigations. Developing and implementing such procedures and criteria would help ensure that potential violations of law or policy or misuse of taxpayer dollars are appropriately investigated.

Internal audits. NeighborWorks' internal audit function met most standards of The Institute for Internal Auditors—a recognized leader on internal auditing. However, it has not fully met standards on quality assurance and improvement. For example, Internal Audit has not had an external assessment—required every 5 years—since 2012. By implementing a quality assurance and improvement program, Internal Audit could assess the efficiency and effectiveness of its activities and identify opportunities for improvement.

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Abbreviations

HUD	Department of Housing and Urban Development
IT	information technology
OSHA	Occupational Safety and Health Administration

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June 14, 2023

The Honorable Brian Schatz
Chair
The Honorable Cindy Hyde-Smith
Ranking Member
Subcommittee on Transportation, Housing and Urban Development, and
Related Agencies
Committee on Appropriations
United States Senate

The Honorable Tom Cole
Chair
The Honorable Mike Quigley
Ranking Member
Subcommittee on Transportation, Housing and Urban Development, and
Related Agencies
Committee on Appropriations
House of Representatives

The Neighborhood Reinvestment Corporation, a nonprofit that operates as NeighborWorks America, was established by Congress in 1978 to revitalize neighborhoods across the country. NeighborWorks maintains a network of affiliate nonprofits and provides operational grants, technical assistance, and community development training to these affiliates and the housing and community development field. Over the last 10 years, external and internal audits have found deficiencies in the organization's procurement process.

The Joint Explanatory Statement for the Consolidated Appropriations Act, 2022 included a provision for GAO to review NeighborWorks' compliance with regulatory requirements and internal policies in several areas. This report examines the extent to which NeighborWorks established effective policies, procedures, and internal controls for (1) procuring goods and services (including managing conflicts of interest); and (2) managing internal risks related to nonprocurement conflicts of interest, whistleblowers, and audits.

For the first objective, we compared NeighborWorks' policies for procurement against 2 C.F.R. part 200, federal internal control standards,

and GAO leading practices.¹ We also analyzed a nongeneralizable sample of contract files and purchase card transactions for fiscal years 2019–2021 against the organization’s policies.² We examined contract data from NeighborWorks’ procurement and finance systems on whether the contract dollar amounts matched from October 1, 2017 to August 1, 2022.³ Based on our review of NeighborWorks’ data and interviews with staff, we determined that the data were sufficiently reliable for describing the total number of contracts during the period of our review and comparing the information on individual contracts in both systems. We reviewed NeighborWorks’ external and internal audit reports for fiscal years 2011–2021 to identify any control weaknesses. We also interviewed internal and external auditors and current and former procurement leadership and staff on these policies and procedures.

For the second objective, we analyzed NeighborWorks’ policies, procedures, and internal controls for nonprocurement conflicts of interest, whistleblower complaints, its internal audit function, and external audits against 2 C.F.R. part 200, federal internal control standards, and industry standards for internal and government auditing. We reviewed NeighborWorks’ external auditor’s files for fiscal year 2021 to analyze the audit scope, reports, and findings against the audit provisions of 2 C.F.R. part 200 and identify documented communication between the auditor and NeighborWorks management. We did not express an opinion on NeighborWorks’ financial statements or make conclusions on the effectiveness of its internal control over financial reporting.

We also reviewed conflicts of interest and whistleblower complaints and their investigations identified by NeighborWorks for 2016 through August 2022. We interviewed the external auditors and NeighborWorks’ Board of Directors and staff about these policies and procedures, including senior leadership, internal audit staff, General Counsel staff, and a sample of

¹GAO, *A Framework for Assessing the Acquisition Function at Federal Agencies*, [GAO-05-218G](#) (Washington, D.C.: Sept. 1, 2005); and *Human Capital: A Guide for Assisting Strategic Training and Development Efforts in the Federal Government*, [GAO-04-546G](#) (Washington, D.C.: Mar. 1, 2004). 2 C.F.R. part 200 is titled *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

²We reviewed contracts for fiscal years 2019–2021 to include one year in which NeighborWorks’ procurement processes were not affected by the COVID-19 pandemic.

³According to NeighborWorks’ management, the organization moved to a new procurement system in fiscal year 2017 and did not have data on all contracts prior to that date.

former employees selected based on their department and other criteria. We also conducted five focus groups with a sample of other staff across the organization on their knowledge of and experience with these topics. To select participants for the groups, we divided all staff into groups based on their job responsibilities, contract delegation of authority, department function, and office location. We then randomly selected participants within those groups. See appendix I for a more detailed discussion of our scope and methodology.

We conducted this performance audit from March 2022 to June 2023 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 objectives.

Background

Mission, Funding, and Governance

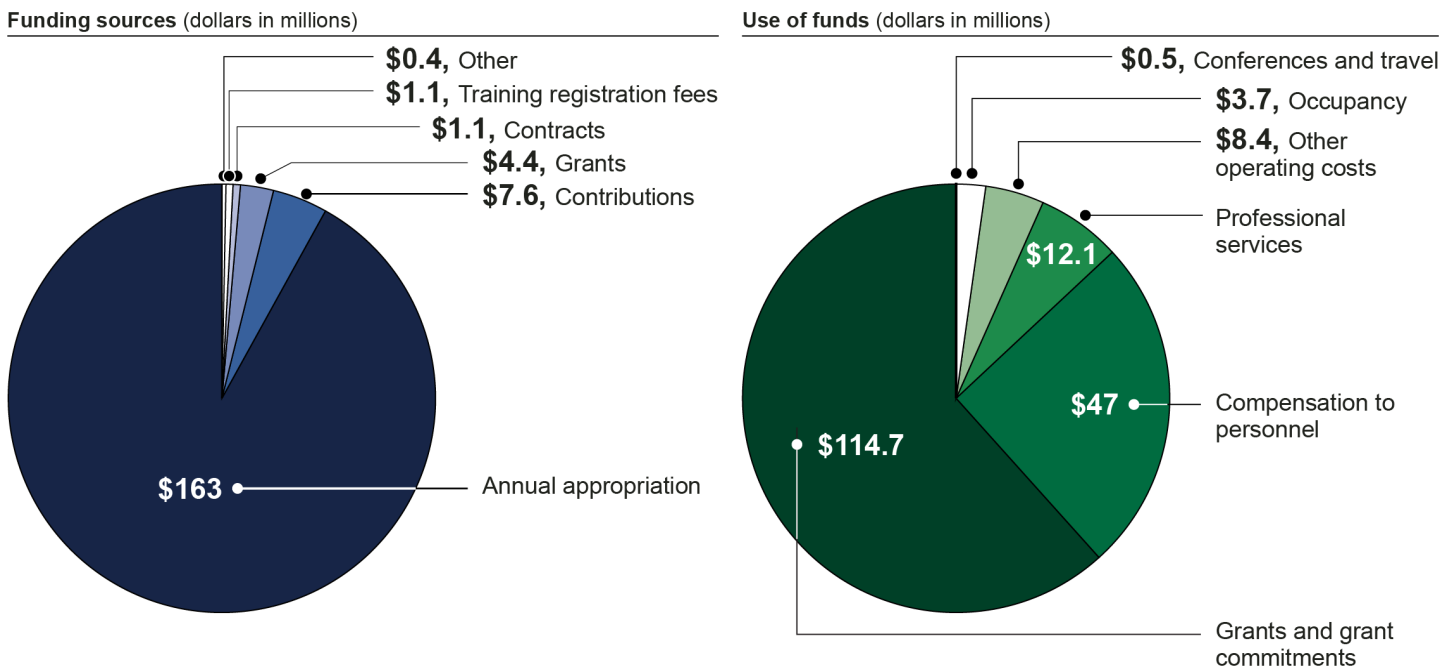
NeighborWorks' mission is to create opportunities for people to live in affordable homes, improve their lives, and strengthen their communities. The President and Chief Executive Officer leads the organization, overseeing around 350 employees (as of March 2023). NeighborWorks supports a network of nearly 250 nonprofit housing and community development organizations in all 50 states, the District of Columbia, and Puerto Rico. NeighborWorks serves as an intermediary for leaders from the nonprofit, for-profit, and public sectors to work on housing and community development related issues. It also provides grants, technical assistance, training, and organizational assessments for its network organizations and the broader housing and community development field.⁴

NeighborWorks receives an annual appropriation from Congress that constitutes the majority of its funding. In fiscal year 2021, NeighborWorks'

⁴To ensure its network organizations remain operationally strong and financially healthy, NeighborWorks conducts assessments before accepting an organization into its network and annually thereafter. In addition, NeighborWorks collects quarterly and annual data from the organizations to help them assess their operations and impacts

annual appropriation was \$163 million (see fig. 1).⁵ Private donations, grants (including federal grants), and training registration fees are additional sources of revenue. NeighborWorks' spending on grants and employee compensation makes up the majority of its budget.

Figure 1: NeighborWorks America Funding Sources and Use of Funds, Fiscal Year 2021



Source: NeighborWorks America. | GAO-23-105944

Note: In addition, NeighborWorks also received supplemental appropriations that include \$3 million available through fiscal year 2023 (Pub. L. No. 116-6, 133 Stat. 469 (2019) and Pub. L. No. 116-94, 133 Stat. 3012 (2019)); \$2 million available through fiscal year 2024 (Pub. L. No. 116-260, 134 Stat. 1903 (2020)); and \$100 million available through fiscal year 2025 (Pub. L. No. 117-2, § 3204, 135 Stat. 60 (2021)). These supplemental appropriations were for the Shared Equity Housing Models program and housing counseling. According to NeighborWorks management, \$1.3 million of these funds were recognized in fiscal year 2021. NeighborWorks tracks funds used on procurement in the professional services and other operating costs categories and has no single line item for procurement.

Defined in statute, NeighborWorks' Board of Directors is composed of the heads (or their designated representatives) of four federal financial regulatory agencies and the Department of Housing and Urban

⁵In addition to its annual appropriation, NeighborWorks has received multiyear supplemental appropriations for certain activities, such as a shared equity housing models program and counseling programs.

Development (HUD).⁶ The Board also established an Audit Committee to provide advice and guidance on the adequacy and effectiveness of management's practices. The Audit Committee's responsibilities include reviewing internal and external audit products, receiving reports on each whistleblower complaint under NeighborWorks' whistleblower policy, and reporting its findings and recommendations to the Board. NeighborWorks' bylaws state that the full Board should meet at least six times per year, and the Audit Committee charter states the committee should meet at least three times a year. In addition, the federal agencies composing the Board, among others, are authorized to provide services to NeighborWorks necessary to achieve its objectives and carry out the purposes of its enabling act.⁷

As provided in its enabling act, NeighborWorks is subject to the administrative and cost standards included in certain provisions of 2 C.F.R. part 200.⁸ According to NeighborWorks management, it considers all other provisions of 2 C.F.R. part 200 as best practices. Additionally, when NeighborWorks receives federal grants (such as from HUD), NeighborWorks is required to comply with applicable provisions of 2 C.F.R. part 200 for those grants or as a pass-through entity, as

⁶The four federal financial regulators on the Board are the Federal Deposit Insurance Corporation, National Credit Union Administration, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency. A representative from another federal financial regulator—the Federal Home Loan Bank Board—used to sit on the Board (as specified in 42 U.S.C. § 8103). The Federal Home Loan Bank Board was abolished in 1989 and its powers transferred to the Office of Thrift Supervision. Pub. L. No. 101-73, §§ 401 and 403, 103 Stat. 354, 360 (1989). A representative from the Office of Thrift Supervision sat on the Board until that agency was abolished in 2011. Pub. L. 111-203, § 312, 124 Stat. 1521 (2010).

⁷42 U.S.C. § 8105(c)(3).

⁸Pub. L. No. 95-557, 92 Stat. 2115 (1978), codified at 42 U.S.C. § 8104(e) provides, in relevant part, “. . . [t]he corporation shall be subject to administrative and cost standards issued by the Office of Management and Budget similar to standards applicable to non-profit grantees and educational institutions.” See also H.R. REP. NO. 95-1792, at 98 (1978) (Conf. Rep.) (expressing the need for flexibility in application of standards delineated in Office of Management and Budget Circulars). To comply with 42 U.S.C. § 8104(e), NeighborWorks adopted the provisions of Office of Management and Budget Circular A-110 “Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations”. Office of Management and Budget Circular A-110 was eventually codified, in part, at 2 C.F.R. part 200. See 78 Fed. Reg. 78590 (Dec. 26, 2013), 2 C.F.R. § 1.215. See also GAO, *Government Corporations: Profiles of Existing Government Corporations*, [GAO/GGD-96-14](#) (Washington, D.C.: Dec. 13, 1995): table VI.4.2, p. 175.

appropriate.⁹ For example, as a grant recipient, NeighborWorks must comply with all requirements of the federal award, including requirements on executive compensation and whistleblower protections, establishing a financial management system, and maintaining effective internal controls.¹⁰ As a grant recipient, NeighborWorks also must disclose any conflict of interest to the federal awarding agency in accordance with the federal awarding agency's policy.¹¹

Procurement

NeighborWorks contracts for various goods and services, such as IT products and services, training faculty, and facility services. When procuring goods and services, NeighborWorks policy states that it adheres to a number of provisions in 2 C.F.R. part 200. These provisions cover micropurchase transactions, small- and large-dollar contracts, competition, and record retention (see table 1).

Table 1: Examples of 2 C.F.R. Part 200 Provisions Related to Procurement

Procurement area	Provisions
Record retention	Maintain financial records, supporting documents, and all other records pertinent to the procurement.
Micropurchase transactions	May be awarded without soliciting competitive price or rate quotes if the price does not exceed the micropurchase threshold and is reasonable based on research, experience, purchase history, or other information. Purchase cards may be used for micropurchases.
Formal procurements	Procurements over the simplified acquisition threshold (or a lower threshold established by the nonfederal entity) must perform a cost or price analysis, including making independent estimates before receiving bids or proposals. ^a
Small purchases	Small purchases that have an aggregate dollar amount higher than the micropurchase threshold but do not exceed the simplified acquisition threshold (or lower established threshold) must include a price or rate quote from an adequate number of qualified sources as determined by the nonfederal entity.
Competition	All procurement transactions must be conducted in a manner providing full and open competition.

Source: GAO analysis of 2 C.F.R. Part 200 | GAO-23-105944

^aThe simplified acquisition threshold means the dollar amount below which a nonfederal entity may purchase property or services using small purchase methods. The simplified acquisition threshold for

⁹A pass-through entity is defined as a nonfederal entity that provides a subaward to a subrecipient to carry out part of a federal program. 2 C.F.R. § 200.1. Accordingly, when NeighborWorks (a nonfederal entity) receives grant funding from a federal awarding agency and provides subawards with such grant funds, NeighborWorks must comply with provisions of part 200 applicable to pass-through entities.

¹⁰2 C.F.R. §§ 200.300(b), 200.302, 200.303.

¹¹2 C.F.R. § 200.112.

procurement activities administered under federal awards is set by the Federal Acquisition Regulation at 48 C.F.R. part.2, subpart. 2.1. However, a nonfederal entity may establish a lower threshold based on internal controls, an evaluation of risk, and its documented procedures. 2 C.F.R. § 200.1.

Conflicts of Interest

NeighborWorks maintains a written conflict of interest policy to align with 2 C.F.R. part 200 and prohibits employees from participating in the selection, award, or administration of a contract if they have a real or apparent conflict of interest.¹² Under 2 C.F.R. part 200, a conflict of interest also can occur when an organization's relationship with a parent company, affiliate, or subsidiary makes it unable, or appear unable, to conduct an impartial procurement with a related organization. This is referred to as an organizational conflict of interest.

Whistleblower Protections

Because NeighborWorks receives federal grants, its employees are protected from discharge, demotion, or other forms of discrimination as a reprisal for disclosing certain legal or ethical violations (such as gross waste of federal funds or a violation of law, rule, or regulation related to a federal contract).¹³ Organizations, including nonprofits, may include protections that go beyond any applicable law. For example, according to the National Council of Nonprofits, nonprofits often adopt whistleblower protection policies that address complaints about other aspects of a nonprofit's activities and operations. These policies can help ensure that problems are identified, investigated, and addressed.

Internal Audit Function

NeighborWorks has an internal audit function that is tasked with reviewing the organization's financial transactions, internal controls, and adherence to procedures. The Chief Audit Executive reports functionally to the Audit Committee and administratively to the Chief Executive Officer.

The Internal Audit charter states it operates in accordance with the Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors, an international professional association recognized as a leader on internal auditing. The standards are principle-based and provide a framework for performing internal auditing. The standards cover areas such as planning and managing engagements,

¹²When NeighborWorks receives grants from a federal agency, it must adhere to the agency's established conflict of interest policy for federal awards, which includes disclosing any conflict of interest consistent with such policy. See 2 C.F.R. §§ 200.112, 200.318(c)(1).

¹³See 41 U.S.C. § 4712, extending protections to employees of grantees of federal awards from certain executive branch agencies. Other federal or state protections may extend to NeighborWorks employees dependent upon the circumstances.

communicating and monitoring results, independence and objectivity, and a quality assurance and improvement program.

External Audit

NeighborWorks is required to undergo an annual external financial audit conducted by a public accounting firm that provides an audit of the organization's financial statements. Because NeighborWorks expends over \$750,000 in federal grants during a fiscal year, it is required to comply with the Single Audit Act requirements, and obtain an audit in compliance with subpart F of 2 C.F.R. part 200. These requirements include auditing the schedule of expenditures of federal awards, financial statements, and internal controls and compliance with applicable law and terms and conditions of federal awards identified as major programs.¹⁴

The external financial audit must be conducted in accordance with U.S. generally accepted government auditing standards.¹⁵ The audit product presents the financial position of the organization at the end of the current fiscal year in addition to the past fiscal year. The results of the external audits are communicated directly to the Board of Directors and can be accessed on NeighborWorks' website.

¹⁴See, e.g., 2 C.F.R. § 200.514.

¹⁵GAO, *Government Auditing Standards: 2018 Revision*, [GAO-18-568G](#) (Washington, D.C.: July 17, 2018).

NeighborWorks Did Not Consistently Implement Procurement Policies, but Its New Procurement System May Help Strengthen Controls

Changes to Procurement Include Creation of a Procurement Department and Size-based Procedures for Transactions

Since 2015, NeighborWorks has created a Procurement Department and developed uniform procedures for different-sized procurements. Before 2015, procurement procedures were included in NeighborWorks' administrative manual, and multiple departments had some oversight responsibility for procurement. In 2015–2016, in response to concerns from its external auditor about the procurement processes, NeighborWorks created a centralized Procurement Department. It also created stand-alone policies for contracts and micropurchase transactions. According to NeighborWorks representatives, their decision to restructure the procurement process, including centralizing it in a new office, was intended to address previous procurement weaknesses. They said once created, the leadership in the new Procurement Department focused on better aligning NeighborWorks' procurement policies with federal procurement rules.

The 2015 procurement policies for contracts and micropurchases created uniform procedures, based primarily on the amount of a procurement. All procurement responsibilities for purchases below \$20,000 were assigned to the relevant business units. Larger procurements were assigned to the new Procurement Department. The policy increased documentation requirements for procurements from \$20,000 to \$99,999 and then again for contracts for \$100,000 and above. In addition, NeighborWorks created a separate micropurchase policy and raised the micropurchase limit from \$2,500 to \$3,500.

In 2018, NeighborWorks further revised its procurement policies, including making the Procurement Department responsible for some procurements under \$20,000 and further detailing what procedures are required based on the procurement dollar amount (see table 2). The

policy stated that it was written to align with 2 C.F.R. part 200, among other applicable federal laws and regulations, and included processes that mirrored that regulation.

Table 2: NeighborWorks America’s Procurement Procedures from its 2018 Policy, by Contract Dollar Amount

Procedure	Contract dollar amount
Micropurchase	\$3,500 and below
Small purchase	\$3,501-\$20,000
Simplified acquisition	\$20,001-\$99,999
Formal acquisition	\$100,000 and above

Source: GAO and NeighborWorks. | GAO-23-105944

We found that the policy aligned with the following provisions of the regulation that we reviewed:

- maintain records detailing a procurement’s history (including the rationale for the method of procurement, contractor selection or rejection, and the basis for the contract price);¹⁶
- obtain price or rate quotations from an adequate number of qualified sources (a minimum of three according to NeighborWorks’ policy) for small purchases and simplified acquisitions to ensure adequate price competition;¹⁷
- conduct a cost or price analysis in connection with procurements in excess of the simplified acquisition threshold, including contract modifications;¹⁸
- limit the use of noncompetitive procurements (including sole-source contracts) to certain circumstances, including for purchases that do not exceed the micropurchase limit;¹⁹ and

¹⁶2 C.F.R. § 200.318(i).

¹⁷According to the regulation, the nonfederal entity determines the number of sources. 2 C.F.R. § 200.320(a)(2).

¹⁸2 C.F.R. § 200.324(a).

¹⁹2 C.F.R. § 200.320(c).

-
- publicly advertise procurements over the simplified acquisition threshold, with some exceptions.²⁰

The policy also created informal procurement methods for micropurchases and small purchases in an effort to conform to part 200.²¹

During the course of our review, NeighborWorks finalized a new procurement policy in March 2023, in which the micropurchase threshold increased to \$5,000, and acquisitions between \$5,001 and \$100,000 are handled under one process. For those acquisitions, staff in the business unit complete a two-page template that includes a description of the goods or services to be acquired, how the quotations were evaluated, a list of the price or rate quotes received, and the quote selected. Once completed, the template is sent to the Procurement Department for approval. In the new policy, the process for procurements over \$100,000 generally remains the same. According to NeighborWorks' Chief Financial Officer, changes to the simplified acquisition process were necessary, because the existing process was overly cumbersome and included more steps than required under 2 C.F.R. part 200.

We found that the 2023 policy aligns with relevant provisions of 2 C.F.R. part 200. For example, the regulation allows entities to create informal procurement methods for micropurchases and small purchases. NeighborWorks' new micropurchase threshold is lower than the threshold established by regulation, and its micropurchase policy documents the procedures for making noncompetitive purchases under that threshold.²²

²⁰2 C.F.R. § 200.320(b).

²¹2 C.F.R. § 200.320. According to the regulation, when the value of a procurement does not exceed the simple acquisition threshold, or a lower threshold established by the nonfederal entity, formal procurement methods are not required and the nonfederal entity may use informal procurement methods to expedite the completion of its transactions and minimize the associated administrative burden and cost. 2 C.F.R. § 200.320(a).

²²With some exceptions, the micropurchase threshold is \$10,000. See 2 C.F.R. § 200.1 definition of "micro-purchase threshold," referencing the Federal Acquisition Regulation, 48 C.F.R. part 2, subpart 2.1 definition of "micro-purchase threshold."

Similarly, NeighborWorks' simplified acquisition threshold is below the regulatory threshold, as described in its policy.²³

Procurement Department Inconsistently Followed Procedures, Did Not Formally Train Staff, and Did Not Fully Communicate Policy Changes

Our review of a nongeneralizable sample of contracts found that NeighborWorks staff did not consistently follow their procedures for procurements and micropurchases. According to Procurement Department staff and other staff who work on procurements, they received informal, on-the-job training, and changes to NeighborWorks' policies were not uniformly communicated to all employees before they were implemented.

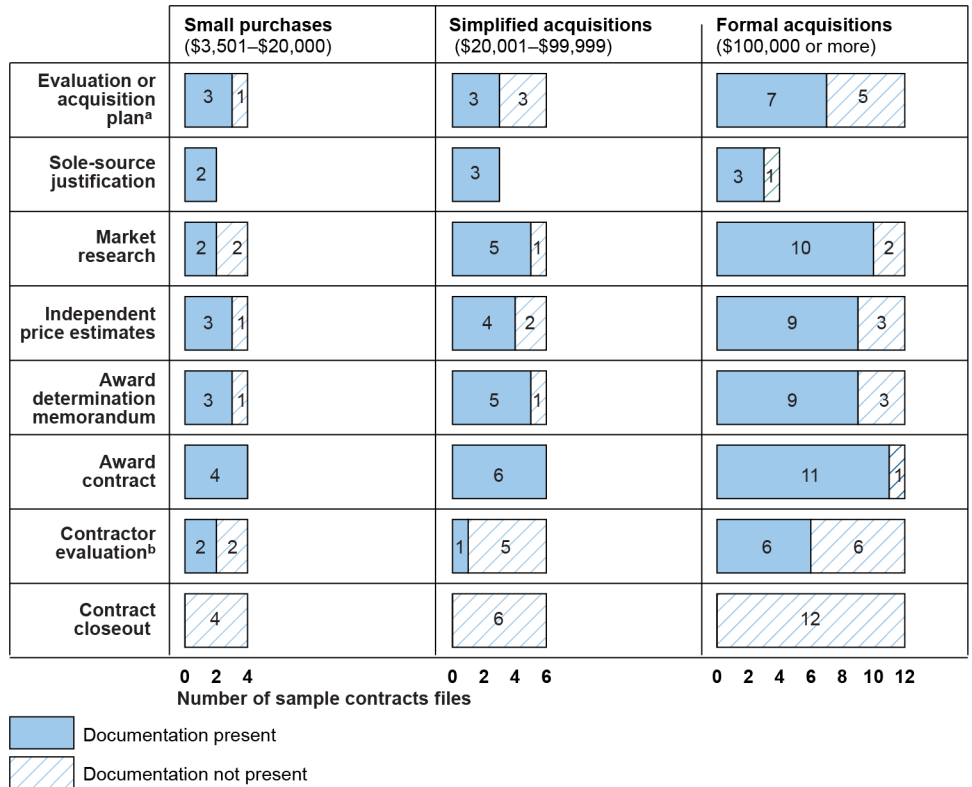
Some Contract and Purchase Card Files Lacked Required Documentation and Supervisory Approvals

Contract files. We reviewed a sample of 22 contract files—13 competitive and nine sole-source contracts—from 2019–2021 and found that staff did not always follow policy requirements to retain documentation (based on 2 C.F.R. part 200).²⁴ Because of a lack of documentation, we could not determine whether NeighborWorks staff consistently followed other requirements. Fourteen of the 22 contract files were missing at least one piece of pre-award documentation required by the policy. All contracts that were no longer in effect were missing post-award documentation, including contract completion statements (see fig. 2).

²³With some exceptions, the simplified acquisition threshold is \$250,000. See 2 C.F.R. § 200.1 definition of "simplified acquisition threshold," referencing the Federal Acquisition Regulation, 48 C.F.R. part 2, subpart 2.1 definition of "simplified acquisition threshold." However, the definition in § 200.1 provides discretion to set the simplified acquisition threshold at a lower amount based on internal controls, an evaluation of risk, and documented procurement procedures. NeighborWorks set this threshold at \$100,000.

²⁴During fiscal years 2019–2021, NeighborWorks executed 714 contracts, most of which were competitively bid.

Figure 2: NeighborWorks America’s Documentation of Required Elements of Sample Contract Files, by Contract Size, Fiscal Years 2019–2021



Source: GAO. | GAO-23-105944

Note: The simplified acquisition threshold is, with some exceptions, \$250,000 under the Federal Acquisition Regulation; however, NeighborWorks has set it at \$100,000 for its procurements. 2 C.F.R. § 200.1 definition of “simplified acquisition threshold,” referencing the Federal Acquisition Regulation, 48 C.F.R. part 2, subpart 2.1 definition of “simplified acquisition threshold.”

^aWhen submitting a procurement package, business units must document an evaluation plan for small purchases, a simplified acquisition plan for simplified acquisitions, and an acquisition plan for formal acquisitions.

^bNeighborWorks’ policy requires contractor evaluations for contracts over \$50,000. In our sample, that includes all formal acquisition contracts and three of the six simplified acquisitions. Of those three, one included the performance evaluation. While not required for small purchases, we included those contracts in this table because NeighborWorks conducted performance evaluations for some of the small purchases in our sample.

More specifically, five files were missing evidence that market research was conducted and six did not include an independent price estimate. In addition, nine files were missing the required acquisition plans for each

procurement.²⁵ NeighborWorks' Chief Financial Officer stated that the organization did not consistently follow the procurement policy for certain requirements, such as requests for contract modifications and contract closeout documentation.²⁶

In contrast, we found that almost all sole-source contracts we reviewed (eight of nine) included a justification that explained why it fell under one of the allowable categories in NeighborWorks' policies and as reflected in 2 C.F.R. part 200.²⁷

All of the procurements we reviewed that involved a technical evaluation panel were missing attestation documentation that panel members did not have a conflict of interest, as required by NeighborWorks' policy. The policy, which reflects 2 C.F.R. part 200, prohibits employees from participating in procurements if they have a real or apparent conflict of interest.²⁸

NeighborWorks' Internal Audit identified similar issues, and the organization has taken action to address it. Specifically, in March 2022, Internal Audit recommended that the Procurement Department develop and formalize a conflict-of-interest declaration form to be completed by all procurement technical evaluation panels after a whistleblower helped identify a conflict of interest for another employee who had served on an

²⁵NeighborWorks' policies state that acquisition planning is the process of coordinating and integrating the efforts of all personnel responsible for an acquisition into a comprehensive plan for fulfilling the agency need in a timely manner and at a reasonable cost. It includes developing the overall strategy for managing the acquisition. Acquisition plans are not required for small purchases.

²⁶NeighborWorks' Chief Financial Officer joined the organization in May 2021 and, according to NeighborWorks, learned of this issue when responding to our document requests.

²⁷The ninth contract was reviewed by the relevant business unit, the Office of General Counsel, and NeighborWorks management, but did not go through the proper procurement process. A memorandum to the file dated after the contract award provided corrective actions for following NeighborWorks' procurement process. The memorandum also included an explanation of why a sole-source contract would have been justified.

²⁸See 2 C.F.R. § 200.318(c)(1). Additionally, when NeighborWorks receives grants from a federal agency, it must adhere to the agency's established conflict-of-interest policy for federal awards, which includes disclosing any conflict of interest consistent with such policy. 2 C.F.R. § 200.112. According to HUD's Office of Housing Counseling, it is performing a financial administrative review of its grants to NeighborWorks.

evaluation panel.²⁹ The Procurement Department created a form and NeighborWorks updated its Code of Ethical Conduct to state that panel members must complete the form before participating in technical evaluation panel meetings. As discussed previously, NeighborWorks created a new streamlined process for procurements under \$100,000. Those procurements will use a new template that includes a conflict of interest declaration that must be signed before the contract can move forward.

Some documents in the contract files we reviewed also were missing approval signatures from the appropriate supervisors. For example, of the six contract files we reviewed that were subject to the simplified acquisition process, two did not have award determination memorandums signed by someone in the business unit and the Procurement Senior Vice President, as required in NeighborWorks' policy.³⁰

In its 2020 review of NEST (NeighborWorks' procurement system, which was in place until fall 2022), Internal Audit reviewed a sample of contract files. It found that documentation that was expected in procurement files was often inconsistent or not available in NEST. For example, documentation on price and cost analyses were generally absent from NEST, and technical evaluation summary reports were sometimes omitted from the system. Instead, many files were stored in a separate file system meant for corporate files, and a subset were uploaded to NEST when a vendor was selected.³¹

According to Procurement staff, NEST did not have controls to ensure all required documentation was obtained and uploaded in a contract file. In addition, Procurement Department staff and staff from business units who worked on procurements did not receive formal training on

²⁹NeighborWorks terminated the contract identified by the whistleblower in June 2022 after the contractor completed a critical scope of work, according to NeighborWorks management. The Senior Vice President of Procurement at that time identified four additional contracts associated with this individual that may have represented a conflict of interest. All of those contracts had expired as of June 2022.

³⁰In addition, one contract file subject to the simplified acquisition process did not include an award determination memorandum.

³¹Internal Audit made several recommendations related to NEST, including that NeighborWorks create one system of record for procurement, because using two systems is inefficient and diminishes transparency. In addition, requiring all procurement documentation to be stored in one location provides consistency and increases efficiency (that is, it reduces the time and effort that otherwise could be lost in locating or determining the existence of documents).

NeighborWorks' procurement process, which could have contributed to the inconsistent implementation of procedures. We discuss staff training in more detail later in this section.

Purchase card transaction files. We also reviewed 42 purchase card transactions made in 2019–2021 and found similar instances of missing documentation or supervisory approval (see table 3). During this period, NeighborWorks employees made over 11,000 micropurchase transactions totaling more than \$2.3 million. According to NeighborWorks' purchase card policy during this period, staff must provide a receipt and complete a monthly reconciliation for each purchase card transaction. Transactions over \$500 must receive preapproval, and monthly reconciliation statements should be reviewed and signed by a cardholder's approving officer.

Table 3: Presence of Required Documentation of Sample NeighborWorks America Purchase Card Transactions, Fiscal Years 2019–2021

Documentation of	Yes	No
Receipt	38	4
Preapproval for purchases over \$500	3	4

Source: GAO review of NeighborWorks documents. | GAO-23-105944

Of the 42 transactions we reviewed, four did not have a receipt or a lost or missing receipt verification form. Although all transactions had a monthly reconciliation statement, 16 were not signed by the approving officer.³² In addition, four of the seven transactions over \$500 that we reviewed did not have documentation of preapproval.

In March 2023, NeighborWorks finalized a new purchase card policy that removed the preapproval requirement. NeighborWorks proposed removing preapprovals for several reasons, including that they were burdensome for supervisory staff and that the current policy already required documentation such as itemized receipts and supervisory approval. Internal Audit agreed that preapprovals were cumbersome and inefficient for timely transactions and supported the change because the supervisory review and reconciliation process remained unchanged.

³²For another 16 transactions, it was unclear from the documentation provided whether the statements were signed by the approving officer, because NeighborWorks moved to online reviews of monthly statements in August 2020.

Procurement and Relevant
Business Unit Staff Have Not
Received Formal Procurement
Training

Three of the five current staff in the Procurement Department told us that the majority of training they received on NeighborWorks' processes and procedures was on-the-job training.³³ Specifically, they said that they received training by being paired with or mentored by a more experienced employee, which one employee described as useful.

However, one employee said that additional training would have been helpful because many things were not clear when the employee began working at NeighborWorks. Another employee said that on-the-job training may be less effective for people who are reluctant to ask a lot of questions. A staff member in the Procurement Department said that because staff do not all conduct procurements in the same way or use the same process, asking multiple people the same question can lead to different answers. In addition, the Procurement Department has experienced significant employee turnover since fiscal year 2020. For example, five procurement staff, including the Senior Vice President, left the department, which had from six to eight employees during the period of our review. New employees also joined, relying on the remaining employees for on-the-job training.

Participants in four of our five focus groups of NeighborWorks employees also said that they had not received much, if any, training on procurement. One participant said they were thrown into the work with no training. Another participant said the lack of training was frustrating because staff wanted to follow the policy but did not know how. Similarly, four former Procurement employees told us they received little-to-no formal training on procurement at NeighborWorks. Two employees said they received no training, and two said they relied on informal, on-the-job training.³⁴

The Senior Vice President of Procurement said that staff have access to outside training on procurement. However, two current Procurement Department employees told us they did not have time to take the outside training available because of their workloads. The Procurement Department contracted with a company to provide internal training on 2 C.F.R. part 200 in March 2023. The training was intended to provide staff

³³We interviewed all five Procurement Department staff as of November 2022 and the Senior Vice President of Procurement.

³⁴We interviewed five former Procurement Department staff who left the agency in fiscal years 2019–2022.

with a greater understanding of NeighborWorks' business processes and federal procurement rules.

NeighborWorks also has not provided training related to writing consistent scopes of work to business unit staff when soliciting rate quotes under the new policy. As previously mentioned, business unit staff will now obtain rate quotes directly from vendors for most procurements under \$100,000. Current and former Procurement staff have expressed concerns about how scopes of work are written. For example, one current and one former employee said that badly written scopes of works can delay procurements or make it harder for NeighborWorks to receive its targeted number of bids. Another current and another former employee said they were concerned that not documenting solicitations for these procurements under the new policy could make it harder for Procurement Department staff to review the consistency of solicitations conducted by business unit staff. The new policy requires staff to document the price and rate quotes received for small purchases, but it allows staff to solicit quotes informally, including by phone call.

NeighborWorks representatives said that Procurement historically held monthly meetings on different topics with the procurement task leads in business units. In 2021, one of the topics focused on creating a scope of work for a solicitation. However, attendance was not required, and attendance records were not kept. Moreover, the session on writing solicitations was offered once in 2021, meaning that staff hired after this meeting would not have received the information on writing scopes of work for solicitations.

In August 2022, NeighborWorks provided formal training on the new procurement system, PRISM (which, according to NeighborWorks management, it began implementing in October 2022) to Procurement staff and business unit staff who work on procurements. The training focused on how to complete procurement steps within the system. While most of the staff members took the training, three out of five Procurement staff said additional training on PRISM is needed. In addition, one manager said Procurement staff need training to learn the system. According to NeighborWorks management, staff who did not attend the original training can review videos on demand and attend meetings (offered twice weekly) to receive help on how to use PRISM. Those meetings include live demonstrations that walk through different use cases.

Human capital is one of the four cornerstones of our framework to promote an efficient, effective, and accountable acquisition function. One key element of the human capital function is acquiring, developing, and retaining talent, including considering whether employees have opportunities for continuous learning and how staff are trained on new practices in acquisition.³⁵ We also developed leading practices on the training and development process in the federal government. One practice focuses on identifying training to improve individual and agency performance and includes establishing a comprehensive mix of formal and on-the-job training.³⁶

Current NeighborWorks management said they were not sure why the organization did not provide formal training to Procurement staff in the past. When the Procurement Department was created, NeighborWorks focused on getting the department running and providing formal training for staff in the business units responsible for procurements so that they were up-to-date on the new department and processes. But the training sessions were not offered after that period. Management said the current Procurement Department is more focused on training. In addition to the training on PRISM and 2 C.F.R. part 200 mentioned earlier, NeighborWorks management said they are also planning additional training for Procurement Department staff in the future, but have not developed a timeline for that training.

Without receiving formal training on procurement, employees may continue to apply NeighborWorks' policies inconsistently, limiting NeighborWorks' ability to ensure procurements are processed properly and that they include all supporting documentation. Furthermore, training on writing scopes of work can help ensure relevant business unit staff are prepared for the new procurement policy that places more procurement responsibilities in their offices.

Significant Changes to Procedures Were Made without Updating Written Policies or Clearly Communicating Them to Staff

NeighborWorks implemented significant changes to its purchase card program before updating the program's policy. The changes included moving the program from the Procurement to the Finance Department

³⁵[GAO-05-218G](#).

³⁶[GAO-04-546G](#).

and increasing the micropurchase limit (from \$3,500 to \$5,000).³⁷ NeighborWorks management emailed purchase cardholders and approvers and conducted a training in September 2022 to inform them of some program changes shortly before they went into effect, but it did not update the written purchase card policy at that time, which serves as a point of reference for all staff.³⁸ In October 2022, Finance Department staff provided a draft of the revised policy to cardholders and approvers for their input after the changes already had been implemented. In our focus groups (which took place after the purchase card threshold changed), two participants said the purchase card threshold was \$3,500, while another participant said it was \$5,000. In March 2023, staff were trained on the revised policy and the finalized purchase card policy went into effect on March 31, 2023.

As we discussed previously, NeighborWorks finalized a new procurement policy that combined the current small purchase and simplified acquisition processes (procurements from \$5,001 to \$100,000). According to NeighborWorks' Chief Financial Officer, the Procurement Department began a limited pilot of the new process in August 2022, and 15 procurements used the new process. The purpose of the pilot was to test a new two-page template for simplified acquisitions to assess how the template would work with PRISM and determine any needed changes.

However, NeighborWorks did not clearly communicate the pilot, leading to concern amongst staff. NeighborWorks' Chief Financial Officer said the simplified acquisition pilot was communicated to senior leaders in the organization to provide them the opportunity to inform its design and test its effectiveness. However, knowledge about the pilot was not limited to those who participated in it. Specifically, a Procurement staff member told us that the Department had begun using the new thresholds when conducting procurements. In addition, that same employee and one former Procurement employee who were not part of the pilot told us about concerns they had about how the new template changes information collection for a simplified acquisition, with one employee saying that management was not responsive to their concerns.

³⁷The move from the Procurement to Finance Department went into effect June 27, 2022, and the increase in the micropurchase limit went into effect October 3, 2022.

³⁸Staff were informed by email on September 26, 2022, about the increase in the micropurchase threshold. According to NeighborWorks management, the training was not mandatory, but a recording was made so that staff who missed the training could access the information.

Procurement Department staff also told us in late 2022 that management generally did not consult them about changes to procurement policies. For example, four out of five department staff said they were minimally or not involved in updating procurement policies and procedures and one staff member said the process did not take into account staff's feedback or concerns. According to NeighborWorks management, Procurement Department staff were asked to review and provide feedback on an updated draft procurement policy over a three-month period beginning in January 2023 prior to the policy being finalized.

One of the four cornerstones in our framework to promote an efficient, effective, and accountable acquisition function is organizational alignment and leadership, such as considering whether agency leadership facilitates and supports clear lines of communication among all parties.³⁹

NeighborWorks did not have a formal process for communicating its policy changes to staff. According to NeighborWorks' Chief Financial Officer, they did not update the purchase card policy before implementing the new threshold because the draft policy was provided to all purchase cardholders for their feedback shortly after the change went into effect. The Chief Financial Officer also said the organization prefers for policy changes to go through multiple rounds of review before finalizing and publishing a policy, which can be a lengthy process. In addition, the Chief Financial Officer said that the change was simple and something they had been working on for a while, and wanted it to take effect at the beginning of the fiscal year, which was before the new policy was finalized.

By not having a formal process to communicate procurement policy changes to staff before they are implemented, NeighborWorks limits its ability to help ensure that all staff are aware of and follow the most current procurement policies and procedures.

Some Purchase Card Transactions May Have Exceeded Dollar Limits Set by NeighborWorks' Policy

We reviewed NeighborWorks' U.S. Bank data for all purchase card transactions from October 2016 through September 2022 (totaling about 27,000 transactions) and identified more than 200 instances of multiple transactions to the same vendor within a fiscal year above the micropurchase threshold.⁴⁰ Under NeighborWorks' purchase card policy,

³⁹GAO-05-218G.

⁴⁰Data provided by NeighborWorks did not allow us to determine whether these instances were for the same goods or service. We also identified five transactions above NeighborWorks' annual threshold without documented preapproval.

single purchases or multiple transactions to the same vendor for the same goods or services should not exceed the micropurchase threshold in one fiscal year.

NeighborWorks policies during this period stated that, generally, all requisitions above that threshold should be processed as contracts and the Senior Vice President of Procurement must review and approve any requests for single purchase card transactions above that threshold. According to NeighborWorks' management, a former Procurement Department staff member responsible for the purchase card program reviewed transactions against the threshold, but current staff do not know how or how often the person reviewed those transactions.

Since the program moved to the Finance Department in 2022, its staff have conducted monthly manual reviews to determine whether single purchases exceeded the policy threshold and have started working with U.S. Bank on a process to automate the review of single and multiple purchase card transactions against the program's threshold, according to NeighborWorks' management. They said one of the goals of the review is to identify multiple purchases approaching the annual threshold before it is reached. The department plans to conduct quarterly reviews of purchase card transactions, but has not yet conducted a review and is assessing how to do so efficiently, according to management.

NeighborWorks' purchase cards are subject to a \$5,000 per-swipe limit and a monthly limit determined by the business need of the cardholder, which is generally over \$5,000 and can be up to \$30,000. According to NeighborWorks management, these limits and other internal controls, including revocation or termination of purchase card privileges when purchase cards are misused, are appropriate given the low credit limits and level of risk associated with micropurchases. However, NeighborWorks employees could exceed the \$5,000 annual threshold for purchases of the same goods or services from the same vendor without reaching the per-swipe or monthly purchase card limit.

Without finalizing and implementing a plan to regularly review whether individual and aggregate purchase card transactions exceed its policy limit, NeighborWorks lacks reasonable assurance that employees appropriately use purchase cards and consider when a competitive bidding process would be more appropriate under the simplified acquisition requirements.

Controls in New Procurement System Will Help Address Some Inconsistencies, but Extent of Their Effectiveness Is Unclear

According to management, NeighborWorks began implementing a new procurement system (PRISM) in fall 2022. The system was brought online at the end of fiscal year 2022 and, according to management, will be integrated with NeighborWorks' financial system in fiscal year 2024.

Controls Include Checks for Document Review and Approvals

We found that PRISM's new capabilities and controls could enhance NeighborWorks' procurement process. But it is too soon to determine if PRISM will address all of NeighborWorks' documentation inconsistencies and data discrepancies between its finance and procurement systems.

Our review found 64 instances from fiscal year 2018 to August 2022 where the amount paid to the vendor in NeighborWorks' finance system was greater than the contract amount in its prior procurement system.⁴¹ During the same period, we also found payments in the finance system above \$3,500 (indicating that they should have been associated with a contract), but could not locate them in the procurement system.⁴²

PRISM has features that may address these issues. For example, its controls include checks for documentation and automatic routing of files to reviewers. PRISM conducts validation checks for procurements at four steps in the process. At each step, the system flags certain errors or missing information and the procurement cannot move forward unless those issues are corrected. PRISM also has controls NeighborWorks can use to ensure documents are routed to the appropriate reviewer. According to Procurement Department staff, after an acquisition file is

⁴¹We reviewed data from October 1, 2017, through August 1, 2022. According to NeighborWorks, the contract amounts in the procurement system may not have included proper increases to the contracts due to contract modifications. This is consistent with our findings and those of Internal Audit that NEST did not have appropriate checks to ensure it displayed accurate contract values or values that aligned with NeighborWorks' finance system. For example, in a 2020 report, Internal Audit found discrepancies between NEST and executed contracts, including two contracts in its sample in which the contract amount reported in NEST was different from the amount stated in the executed contract.

⁴²Some of the payments did not have a contract number associated with them, and other payments had contract numbers that did not match contract numbers in the procurement system, which could be the result of manual error. However, because NeighborWorks' finance and procurement systems are separate, we could not determine whether each of these payments were associated with a contract in the procurement system.

complete, PRISM sends the file to the Director of Procurement for review and approval.

The system lists procurement milestones, such as completing the acquisition plan and conducting market research, and records the date when employees mark the step as completed. According to one Procurement Department staff member, PRISM also automatically adjusts figures when a contract is modified or an option is exercised. Additionally, one staff member said PRISM has improved document storage capabilities and all procurement actions will take place within the system. Procurement Department staff said PRISM will increase accountability and transparency.

According to NeighborWorks management, PRISM will be integrated with its financial system in fiscal year 2024. The Senior Vice President of Procurement said once fully integrated with that system, PRISM will track how much money has been obligated to a contract. According to two staff members in the Procurement Department, the integration of PRISM with its financial data system will reduce discrepancies that occurred with its previous procurement and finance systems.

Some Manual Reviews May Be Needed and Extent of Automated Controls Is Unclear

However, based on our review of the system, it appears that some manual steps need to be performed to ensure certain required actions are taken. For example, PRISM does not currently have a mechanism to ensure that individuals on technical evaluation panels document that they have no conflicts of interest.⁴³ According to NeighborWorks procurement staff, the panelists complete the conflict of interest forms, and the forms are uploaded to the system as supporting documentation. The Director or Senior Vice President of Procurement then manually confirms that all documentation related to technical evaluation panels was uploaded.

In addition, NeighborWorks representatives were unable to provide us with a complete list of the documents and data that PRISM validates at each stage in a procurement before it can move forward. NeighborWorks staff do not yet have a full understanding of all the automated controls in PRISM because at the time of our review, they had not processed a complete procurement through PRISM. For example, we asked what would happen if someone entered the date on which market research had been completed, but did not upload documentation of the market

⁴³According to management, this feature is available, and they are evaluating whether adding it and other features would best serve PRISM's compliance function.

research. Staff were unsure if the system would flag that the documentation was missing.

Procurement staff also said that the organization is considering the best approach to record technical evaluation documentation in the system. According to internal control standards, management should design the entity's information system and related controls to achieve objectives and respond to risk.⁴⁴ By taking steps to ensure that the system includes controls for the completion, review, and approval of all required documentation, such as by periodically auditing the effectiveness of the controls, NeighborWorks will be better positioned to reduce the risk of inconsistencies and errors in procurement documentation.

NeighborWorks Does Not Have Procedures for Documenting Potential Conflicts of Interest and Investigating Whistleblower Complaints

NeighborWorks Has a Policy for Conflicts of Interest but Lacks Procedures for Formally Documenting Potential Conflicts

NeighborWorks has established a conflict of interest policy to align with 2 C.F.R. part 200 that generally reflects leading practices, but does not

⁴⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

have documentation procedures.⁴⁵ NeighborWorks' policy covers conflicts related to employees, their spouses, minor children, and other blood relatives who live with the employee; defines what constitutes a conflict of interest both in broad statements and with specific examples; and prohibits actual conflicts of interests and the appearance of conflicts. Employees are prohibited from having a financial interest that conflicts or appears to conflict with their duties, participating in matters concerning a prospective employer, and engaging in a financial transaction using nonpublic information obtained through their work with NeighborWorks, among other activities.

In October 2022, NeighborWorks updated its Code of Ethical Conduct (which includes its conflict of interest policy) for the first time since 2010. The update reorganized the sections and provided additional clarification, but did not substantially change the policy requirements. According to the Ethics Officer, NeighborWorks updated the conflict of interest policy partly to clarify it for employees and make it easier for management to cite relevant sections to staff when performing reviews. The new policy states that the Board of Directors will review the policy every 2 years, which the Ethics Officer confirmed.

The policy requires employees to sign an annual disclosure form and disclose any perceived or actual conflicts of interest to the Ethics Officer or Human Resources and immediately update their disclosure form when anything changes. Employees also must take annual training on the policy prior to signing their disclosure form. In our focus groups conducted in November 2022, almost all participants (42 of 43) said they annually sign a disclosure statement.⁴⁶ Participants in all five groups also said the annual training was effective, although participants in four groups

⁴⁵See 2 C.F.R. §§ 200.112, 200.318(c)(1). Several federal agencies provide guidelines to grantees on complying with the conflict of interest requirements of 2 C.F.R. part 200. For example, they include the Code of Conduct for HUD Grant Programs, the Department of Justice's Grants Financial Guide 2022, and the Office of Justice Programs – Territories Financial Support Center's Conflict of Interest Guide Sheet. These guidelines include identifying individuals covered by the policy, defining conflicts of interest, prohibiting employees from accepting gifts or favors in excess of a minimum value, and including a duty to disclose conflicts of interest.

⁴⁶One focus group participant answered that they signed the disclosure form once when hired. The questions we asked focus group participants included six poll questions using the Zoom polling feature. The poll questions were all multiple-choice or yes/no and responses from the poll were shared anonymously during the focus group to help guide discussion.

recommended it be updated with new scenarios about situations that could give rise to potential conflicts. NeighborWorks plans to update the training based on the revised policy in summer 2023.

Participants in all five focus groups also provided appropriate examples of conflicts of interest. Participants most often cited contracting with family members, receiving gifts from vendors, and working at or sitting on the boards of similar organizations as prohibited conflicts. Participants generally said they would go to the Office of General Counsel or their direct supervisor with conflict of interest questions.⁴⁷

However, NeighborWorks did not consistently and formally document potential conflicts of interest or their final determinations. The organization does not have procedures or a standard way of documenting potential conflicts of interest or its annual review of employee disclosure forms. NeighborWorks representatives said potential conflicts of interest were usually documented in informal email exchanges to the extent they were documented at all.

In response to our request, NeighborWorks provided email exchanges for 28 potential conflicts of interest from July 2016 through August 2022. According to NeighborWorks representatives, the organization does not have access to the emails of the Ethics Officer who served before 2016 and therefore does not have documentation of any conflicts before that date. NeighborWorks representatives were unable to estimate the number of cases identified through the annual review process or provide information on how cases from the annual review were reviewed and resolved, if at all.

- NeighborWorks did not provide any examples of conflicts of interest identified through the annual review, and we were unable to determine if NeighborWorks reviewed the annual disclosure forms or investigated all potential conflicts of interests.
- Twenty of the 28 potential conflicts provided related to specific employees, and six related to vendors or external consultants.⁴⁸ NeighborWorks' former General Counsel (the Ethics Officer at that time) determined 10 of these represented an actual or perceived

⁴⁷Participants in all five groups said they would ask the General Counsel's office, participants in two groups said they would ask their direct supervisor, and participants in one group said they would ask Human Resources or that they did not know whom to ask.

⁴⁸Two related to members of the NeighborWorks Board of Directors.

conflict of interest that required some action. For example, several of the potential employee conflicts of interest were related to serving on outside boards or advisory committees. In some instances, the former General Counsel determined a conflict existed when the outside organization's mission overlapped with NeighborWorks.

- NeighborWorks did not provide documentation of the final resolution for four of the cases identified. In one case involving a consultant who was considering working for a NeighborWorks affiliate organization, the Office of General Counsel was unaware of the type of services the consultant provided but identified several scenarios that could present a conflict of interest, depending on the consultant's duties. However, NeighborWorks did not document if any of these scenarios applied to the consultant or the final determination on the consultant's continued services with NeighborWorks.

Federal internal control standards state that management should design control activities to achieve objectives and respond to risk, which can include appropriate documentation of the agency's activities and management tracking of those activities. In addition, the standards state that management should implement control activities through policies. Management documents internal control responsibilities, including control activity design, implementation, and operating effectiveness, in the appropriate level of detail to facilitate implementation.⁴⁹

According to NeighborWorks' Ethics Officer, the organization had not developed a standard way of documenting these because in previous years conflicts of interest were rare. The Ethics Officer agreed such procedures could be useful. Without procedures for documenting potential conflicts of interest and their final determinations, NeighborWorks lacks reasonable assurance that staff responsible for reviewing and resolving potential conflicts of interest have taken consistent and appropriate steps to review and resolve them.

Whistleblower Policy Does Not Have Procedures for Elevating Complaints, Conducting Investigations, and Preventing Retaliation

NeighborWorks recently changed its whistleblower policy, but did not develop procedures for handling complaints, conducting investigations, and preventing retaliation. NeighborWorks updated its whistleblower policy in October 2022 with the intention of improving several previous

⁴⁹[GAO-14-704G](#).

policy weaknesses.⁵⁰ For example, the previous policy asked employees to make whistleblower complaints to three senior-level executives but did not provide alternative channels, such as hotlines or online systems. The new policy expands the list of staff to whom employees can report a whistleblower complaint to include their immediate supervisor, next-level manager, and division officer. It also allows individuals to report complaints through an independent, anonymous reporting hotline (online or by telephone).

In addition, the previous policy focused on NeighborWorks employees and was not publicized externally. The new policy expands who can make a complaint to include affiliated organizations, partners, grantees, and contractors and states the policy will be posted on NeighborWorks' public website.

The previous policy also did not include standard procedures for documenting whistleblower complaints. NeighborWorks provided us with documentation of four whistleblower complaints, but without documentation standards there was no assurance that all previous whistleblower complaints were documented or logged.⁵¹ For example, three former employees told us that they had made whistleblower complaints in the last 5 years for which NeighborWorks did not provide us documentation. The new policy established that the Ethics Officer or their delegate is responsible for processing all complaints through the anonymous reporting system.

No Formal Procedures for Handling and Investigating Complaints

Although the new policy increased the number of staff to whom employees can report a whistleblower complaint, it does not provide guidance or procedures for steps those staff should take once they receive a complaint. Unlike the Code of Ethical Conduct that requires supervisors to report all suspected violations of the Code to the Ethics Officer or Human Resources, the whistleblower policy does not include a similar requirement for supervisors to report all complaints they receive or what process they should follow to ensure complaints are logged by the Ethics Officer, investigated, and resolved. Absent such guidance, a complaint could be mishandled in ways similar to what may have

⁵⁰The previous policy had been in effect since October 2005 with minor revisions made during periodic reviews of the administrative manual in which it was contained.

⁵¹The whistleblower complaints were made in 2021 and 2022. NeighborWorks representatives said they were not aware of any other whistleblower complaints from fiscal years 2011–2021.

happened in past cases. In particular, internal audit staff said that in their view, several instances of workplace conflict reviewed as part of a December 2020 internal audit should have been handled under NeighborWorks' whistleblower policy.

In addition, both the new and old policies lack procedures for investigating whistleblower complaints, including standards for determining who should conduct the investigation. The new policy states that the Ethics Officer is responsible for establishing a process for categorizing and assigning complaints for investigation by the appropriate parties. But NeighborWorks has yet to establish such a process.

For each of the four complaints that NeighborWorks provided us, NeighborWorks staff took different investigative approaches. Investigations were conducted both internally by senior-level executives and externally by outside legal counsel without clear criteria for how these decisions were made. For example, two separate complaints related to the same incident were investigated by different staff members who came to different conclusions.⁵²

Federal internal control standards state that management should implement control activities through processes. Management documents internal control responsibilities, including control activity design, implementation, and operating effectiveness, in the appropriate level of detail to facilitate implementation.⁵³ In addition, the Occupational Safety and Health Administration (OSHA) recommends that complaints be

⁵²The first complaint was reported to the General Counsel, Deputy General Counsel, Senior Vice President of Human Resources, and the Chief Audit Executive. The second complaint was reported to the Chief Audit Executive.

⁵³[GAO-14-704G](#).

investigated using an objective, independent complaint review process and that investigations should be prompt, thorough, and transparent.⁵⁴

NeighborWorks representatives were not able to provide a reason why the organization had not previously established procedures (for the prior policy) for investigating whistleblower complaints. The Ethics Officer said that NeighborWorks had not yet established procedures in the updated policy for elevating and investigating complaints, because it prioritized revising the policy first.

Without procedures for handling and investigating whistleblower complaints, NeighborWorks lacks reasonable assurance that all whistleblower complaints have been identified, documented and accounted for, appropriately investigated, and brought to a resolution. In addition, without a clear understanding of who will conduct investigations and how, employees may feel less comfortable coming forward with complaints. In turn, this increases the risk that violations of law or policy or misuse of taxpayer dollars may remain unresolved.

As an alternative to implementing procedures for handling and investigating whistleblower complaints internally, an agreement with a federal Office of Inspector General to handle and investigate its whistleblower complaints may be an option.⁵⁵ Precedent for establishing these arrangements in similar situations exists. For example, in 2012, the Morris K. Udall and Stewart L. Udall Foundation entered into an agreement with the Department of the Interior's Office of Inspector General to review certain questionable actions by foundation employees.⁵⁶ While the foundation differs from NeighborWorks in that it is an executive agency, NeighborWorks' governing statutes authorize the

⁵⁴OSHA's Whistleblower Protection Program enforces the whistleblower provisions of 22 federal statutes protecting employees who raise or report concerns about hazards or violations of various laws, such as workplace health and safety, consumer products, and securities. In that capacity, OSHA developed a set of recommendations to assist employers in creating workplaces that are free from retaliation for making whistleblower complaints. OSHA intended the recommendations to be broadly applicable to all public- and private-sector employers that may be covered by any of these whistleblower statutes, although OSHA noted the principles can be applied where other whistleblower and anti-retaliation protections apply. Occupational Safety and Health Administration, *Recommended Practices for Anti-Retaliation Programs*, OSHA 3905 (Washington, D.C.: 2017).

⁵⁵Federal Inspectors General have responsibility to prevent and detect fraud and abuse.

⁵⁶The Deputy Secretary of the Interior was a member of the foundation's Board of Trustees.

federal agencies that make up its Board (among others) to provide certain services, which could be interpreted to include investigating whistleblower complaints.

No Anti-Retaliation Procedures

Although the old policy prohibited retaliation for whistleblowing, it did not include procedures to help prevent retaliation and placed the burden on the whistleblower to report any retaliation. Similarly, the updated policy prohibits retaliation but lacks procedures to help prevent it. The new policy states that retaliation should be reported to the Senior Vice President of Human Resources, Office of the General Counsel, or through the independent anonymous reporting system. It does not include periodic follow-up with complainants after the investigation has been completed. OSHA recommends such measures to ensure continued protection from retaliation.⁵⁷

Current and former staff we interviewed were split on whether they would feel comfortable making a whistleblower complaint (seven would and eight would not). Five of those who would not feel comfortable said they feared retaliation if they came forward. Similarly, some focus group participants said they would not feel comfortable making a complaint, while others said they would.⁵⁸ The reasons those who would not feel comfortable cited included distrust of NeighborWorks leadership, fear of retaliation, and concern about complaints not being kept confidential. One proposed framework on the factors that affect employees' willingness to voice work-related issues to supervisors suggests that concerns that a complaint will not be taken seriously and fears of negative consequences contribute to employees staying silent.⁵⁹

The two whistleblowers with whom we spoke alleged they had experienced some level of retaliation, such as intimidation from their supervisor and wrongful termination. In addition, five current and former employees told us they witnessed or experienced retaliation themselves. NeighborWorks representatives said they took steps to protect one whistleblower from retaliation by explaining protections and types of retaliation to their supervisors and conducting investigations into

⁵⁷ *Recommended Practices for Anti-Retaliation Programs*.

⁵⁸ Participants in two of five focus groups said they would feel comfortable making a complaint, while participants in three groups gave mixed responses, with some saying they would feel comfortable and some saying they would not.

⁵⁹ Elizabeth W. Morrison, "Employee Voice and Silence," *Annual Review of Organizational Psychology and Organizational Behavior*, vol. 1 (2014): 173–197.

complaints of retaliation. In addition, in one whistleblower case, external legal counsel obtained by the Audit Committee found that NeighborWorks had not retaliated against the employee.

The new whistleblower policy prohibits all forms of retaliation but places the burden on the complainant to report it. Including proactive steps to follow up with complainants may help employees feel more comfortable making a complaint. The Ethics Officer said that NeighborWorks had not considered or included such steps in its new policy because they were not recommended by the external counsel NeighborWorks engaged to advise on revisions to the policy. By including procedures for periodic follow-ups with complainants after an investigation is complete, employees may be more comfortable coming forward with complaints.

Planned Annual Training

NeighborWorks management said the organization plans to introduce new required annual training on its whistleblower policy in summer 2023. Currently, NeighborWorks provides training to new employees on the whistleblower policy as part of the onboarding process, but it does not provide regular training to staff on the policy. In the focus groups we conducted, almost all participants (41 of 43) were aware that NeighborWorks has a whistleblower policy.⁶⁰ However, unlike for the conflict of interest policy (on which staff receive annual training), participants in all five groups were generally unable to provide specifics about the whistleblower policy other than it was contained in the administrative manual.

OSHA notes that training on the whistleblower policy is essential because it provides management and employees with the knowledge, skills, and tools they need to recognize, report, and prevent potential compliance concerns, violations of the law, and retaliation. In addition, required training for managers can demonstrate the organization's commitment to preventing retaliation.⁶¹

As noted above, NeighborWorks plans to introduce new required annual training on its whistleblower policy in summer 2023, according to management. A draft outline of the new training states it will provide a description of the policy, examples of situations covered under the policy,

⁶⁰Two focus group participants answered that they did not know if NeighborWorks had a whistleblower policy. These responses were captured as one of the poll questions using the Zoom polling feature.

⁶¹*Recommended Practices for Anti-Retaliation Programs.*

specifics of protections against retaliation, and ways employees can report complaints.

Structure and Function of Internal Audit Did Not Fully Meet Standards in Two Areas

Multiple Financial and Compliance Audits Conducted Annually

Internal Audit generally performs from around six to eight financial and compliance audits each year across the organization, including of operational and field activities, IT controls, program assessments, and procurement. Each fiscal year, the division develops an annual audit plan to select and prioritize audits. The annual plan is based on a risk assessment that includes interviews with NeighborWorks Senior Vice Presidents and other relevant staff. The assessment also includes a survey of Board members, according to the Chief Audit Executive. The plan is then approved and monitored by the Audit Committee.

As part of the audits included in these plans, Internal Audit previously reviewed and made recommendations in several of the areas we address in this report. In addition to those previously noted, examples include the following:

- In July 2019, Internal Audit found that a number of purchase cardholders did not obtain approval on their monthly statements and recommended the Procurement Department provide periodic reminders of this requirement. Management noted that because cardholders and approving officers are not always in the same physical location, approvals were predominately done through email. The Procurement Department was also undergoing a comprehensive review of the approval process.
- In January 2020, Internal Audit found in two audits that the NEST procurement system's functionality had numerous defects and did not provide sufficient data, forcing one audit to manually assemble a dataset of procurements. Internal Audit recommended that management fast-track the replacement of the system. As previously noted, NeighborWorks began implementing the first phase of a new procurement system in October 2022.
- In July 2020, Internal Audit found that active contracts were missing documentation, such as contract management plans and performance evaluations in requests to exercise an option period. The audit

recommended the Procurement Department conduct a comprehensive review of its policies and procedures, develop consistent procedures for the release of policy updates, and implement updated training for staff involved with acquisition. Management agreed to implement the recommendations after the completion of the new procurement system.

- In December 2020, Internal Audit recommended NeighborWorks institute an anonymous online reporting option for whistleblower complaints as a result of an audit of employee relations. As discussed previously, NeighborWorks approved a revised whistleblower policy in October 2022 that included an independent, anonymous reporting system.
- In August 2021, Internal Audit found that a \$1 million acquisition for the Housing Partnership Network's Launchpad computer code and customer base did not go through the Procurement Department, as required by NeighborWorks' policy, and did not follow the organization's standard operating procedures for IT project governance.⁶² Management responded that the procurement had been made with the Board of Directors' knowledge, but Internal Audit noted that justification memorandums to the Board did not waive adherence to relevant procurement policies.

Standards for Independence
and for Quality Assurance
Program Partially Met

NeighborWorks internal audit charter states that audits follow The International Standards for the Professional Practice of Internal Auditing. We found that the structure and functioning of Internal Audit generally met these standards in nine areas and partially met them in two (see table 4).⁶³

⁶²The code purchase was related to NeighborWorks' plan to migrate Launchpad users (such as housing counseling organizations) to Compass, NeighborWorks' new client management platform.

⁶³The Institute of Internal Auditors developed the standards, which are principle-based and provide a framework for performing and promoting internal auditing.

Table 4: Extent to Which NeighborWorks America’s Internal Audit Addressed International Standards for the Professional Practice of Internal Auditing

Standard	Met standard	Examples of Internal Audit’s activities
Purpose, authority, and responsibility: formally defined in an internal audit charter that is periodically reviewed and approved	●	<ul style="list-style-type: none"> Chief Audit Executive periodically presents the internal audit charter to the Board of Directors for review and approval. The charter states that audits will be conducted in accordance with The Institute for Internal Audit Standards.
Independence and objectivity: activity must be independent and auditors must be objective in their work	◐	<ul style="list-style-type: none"> Internal audit staff cannot carry out operational tasks, approve transactions, or participate in activities that they could audit. Chief Audit Executive reports functionally to the Board of Directors and administratively to the Chief Executive Officer. However, restrictions placed on internal audit staff in assessing specific operations for which they were previously responsible were not documented or formally communicated.
Proficiency and due professional care: engagements must be performed with proficiency and due professional care	●	<ul style="list-style-type: none"> Internal Audit has a Director of Information Assurance with experience in IT. Internal Audit staff are required to take 20–40 hours of continuing professional education annually.
Quality assurance and improvement program: develop and maintain a quality assurance and improvement program that covers all activity	◐	<ul style="list-style-type: none"> The Chief Audit Executive performs ongoing monitoring through engagement planning and supervision. However, Internal Audit does not perform periodic self-assessments against the standards. Internal Audit has not undergone an external assessment since 2012 (these assessments are required every 5 years).
Managing the internal audit activity: effectively manage the internal audit to ensure it adds value	●	<ul style="list-style-type: none"> The Chief Audit Executive develops an annual audit plan, using a risk-based methodology. Internal Audit interviews officers and surveys Board members to identify concerns and priorities.
Nature of work: evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes	●	<ul style="list-style-type: none"> Internal Audit’s scope of work includes determining whether risk management, control, and governance processes are adequate and functioning. Internal Audit has assessed various aspects of NeighborWorks America’s IT and enterprise risk management.
Engagement planning: plan each engagement, including its objectives, scope, timing, and resource allocations	●	<ul style="list-style-type: none"> Annual audit plans include budgeted staff hours, objectives, and relevant risks. Factors used in developing the risk scores for each engagement include systems and culture.
Performing the engagement: identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives	● ^a	<ul style="list-style-type: none"> Internal audit staff said they collect relevant data and documentation to answer their research question, which is stored in the audit management system. Most Board members praised the work of the Chief Audit Executive as diligent and effective.

Standard	Met standard	Examples of Internal Audit's activities
Communicating results of engagements	●	<ul style="list-style-type: none"> Audit reports include clear statements of objectives, scope, and results. Chief Audit Executive provides regular updates on the annual audit plan and individual audits at Audit Committee meetings.
Monitoring progress: establish and maintain a system to monitor the disposition of results	●	<ul style="list-style-type: none"> All recommendations are maintained in the audit management system. Chief Audit Executive is responsible for following up on management's responses to Internal Audit recommendations.
Communicating the acceptance of risks: discuss when management has taken an unacceptable level of risk and communicate the matter to the board when not resolved	●	<ul style="list-style-type: none"> Internal Audit and management disagreed one time in the last 10 years, which the Chief Audit Executive said he brought to the Audit Committee for resolution. All Board Members said they were satisfied with the Chief Audit Executive's communication of risks.

Legend:

- = Internal Audit addressed all aspects of the standard;
- ◐ = Internal Audit addressed some aspects of the standard;
- = Internal Audit did not address any aspects of the standard.

Source: GAO analysis of NeighborWorks information. | GAO-22-105944

^aWe did not conduct an independent assessment of Internal Audit's workpapers, but made our assessment based on interviews with the Board of Directors, senior leadership, the Chief Audit Executive, and Internal Audit staff.

Independence and objectivity. The structure of Internal Audit reflected some aspects of the internal auditing standard for independence and objectivity, but no formal restrictions are in place when an employee transfers from one part of the organization to Internal Audit. According to the standards, internal auditors must refrain from assessing specific operations for which they were responsible in the previous year to preserve objectivity. NeighborWorks' policy and procedures governing Internal Audit do not put any restrictions on internal audit staff who have had responsibilities in other areas of NeighborWorks America.⁶⁴ However, the Chief Audit Executive said that in practice Internal Audit has not assigned staff to review any specific project, program, or operations for which they were responsible in the previous year.

According to the Chief Audit Executive, this restriction was not included in policy or formally documented because employee transfers to Internal Audit were rare. In the last 5 years, a NeighborWorks employee transferred from one area of the organization to Internal Audit, according to the Chief Audit Executive. While the Chief Audit Executive said the

⁶⁴These policies and procedures include the Internal Audit Charter, Internal Audit Standard Operating Procedures, and Audit Committee Charter.

staff member was not permitted to participate in one audit due to previous work in the area, the decision to restrict the staff member's participation in audits or reviews of specific areas was not documented and may not have been fully communicated to Internal Audit staff.

Auditing an operation on which the staff previously worked may impair their objectivity and therefore their ability to effectively assess that area. By formally documenting and communicating restrictions for internal auditors who had previous responsibilities within the organization, NeighborWorks can better ensure that internal audit staff have clear expectations and can effectively perform their duties.

Quality assurance and improvement. In addition, Internal Audit has not met all aspects of the internal auditing standard for a quality assurance and improvement program, because it has not had an external assessment in the past 5 years and has not performed periodic internal assessments. The standards require external assessments to be conducted once every 5 years, and NeighborWorks' Audit Committee Charter also states that external quality assurance reviews will be performed every 5 years. But Internal Audit's last external assessment was performed in 2012.⁶⁵

According to the Chief Audit Executive, the 2017 quality assurance review was deferred because of pressing issues with organization-wide IT systems, which continued into 2019. The Chief Audit Executive said an external assessment also was not performed since 2020 due to disruptions from COVID-19 and a planned change to Internal Audit's management tool in 2021, but that the next external review is planned for fiscal year 2023.

The auditing standards also require internal assessments, which must include ongoing monitoring of Internal Audit's performance and periodic self-assessments. The Chief Audit Executive said he has established ongoing monitoring through engagement planning and workpaper review. Internal Audit also tracks key performance indicators in a report regularly presented to the Audit Committee. However, Internal Audit has not developed a formal quality assurance and improvement program or performed periodic self-assessments against the standards. The Chief Audit Executive said that although Internal Audit has not formally

⁶⁵Honkamp Krueger & Co, P.C. performed the external assessment and issued a report on July 24, 2012.

documented the program or performed these assessments, process improvement was part of staff's annual performance review. Internal audit staff described informal discussions on audit performance.

Additionally, the internal audit reports continued to note that the audits had been conducted in accordance with The Institute of Internal Auditors Standards. However, the standards note that the use of this language is only appropriate when supported by the results of a quality assurance and improvement program. A representative from The Institute of Internal Auditors also confirmed that this language should not be used without meeting the quality assurance and improvement program standard.

By establishing and implementing a formal quality assurance and improvement program that includes both internal and external assessment, Internal Audit will be able to assess the efficiency and effectiveness of its activities, identify opportunities for improvement, and ensure it conforms with internal auditing standards. Additionally, by removing language from reports that indicates the audits conformed with the standards, Internal Audit will no longer give that impression.

Policies for Acquiring an External Auditor and the 2021 Audit Met Requirements

NeighborWorks' policies for acquiring an external audit and describing the roles and responsibilities related to it aligned with subpart F of 2 C.F.R. part 200.⁶⁶ For example, the regulation includes factors to be considered when evaluating proposals for audit services, including relevant experience, availability of staff with professional qualifications and technical abilities, and the results of peer and external quality control reviews.⁶⁷ In October 2019, NeighborWorks' Board of Directors approved a policy for selecting external auditors that included selection criteria consistent with these factors. These criteria included qualified skill and knowledge of the audit team, quality of the work, and ethical behavior and fair dealing.

The fiscal year 2021 external audit conformed with regulatory requirements regarding the scope of the audit, audit reporting, and audit findings. The external audit included an audit of the financial statements and the schedule of expenditures of federal awards, as required by

⁶⁶Because NeighborWorks expends over \$750,000 in federal grants in a fiscal year, it is required to comply with the Single Audit Act requirements, which require compliance with 2 C.F.R. part 200.

⁶⁷2 C.F.R. § 200.509.

generally accepted government auditing standards and subpart F of 2 C.F.R. part 200.⁶⁸ We also found that the external auditor used a risk-based approach to determine the major programs and identified and evaluated noncompliance risk as required.⁶⁹ For example, the auditor tested NeighborWorks' internal controls over compliance requirements that could have a direct and material effect on the major programs, such as the requirement for procurement and suspension and debarment.⁷⁰

The external auditor concluded in its audit report that it did not identify any deficiencies in internal controls over compliance that it considered to be material weaknesses.⁷¹ In addition, the auditor confirmed that it did not issue a management report for any findings that were not included in the audit report.

The external auditor documented evidence of communications with NeighborWorks' management, staff, and those charged with governance as expected throughout the course of the audit of the financial statements in accordance with auditing standards.⁷² For example, the auditor prepared presentations to the Audit Committee at the initiation and conclusion of the audit. The presentation at initiation described the responsibilities, terms of work, scope, objectives, and primary areas of focus and strategy of the audit. The external auditor noted in its presentation to the Audit Committee at the conclusion of the audit that

⁶⁸2 C.F.R. §§ 200.514–200.516.

⁶⁹2 C.F.R. §§ 200.518, 200.519.

⁷⁰This testing covered the types of compliance requirements identified as subject to audit in the Office of Management and Budget *Compliance Supplement* (Appendix XI) to part 200. These compliance requirements for procurement and suspension and debarment include following the procurement standards in 2 C.F.R. sections 200.318 through 200.326 and refraining from contracting with parties that are suspended or debarred.

⁷¹BDO, *Neighborhood Reinvestment Corporation (d.b.a. NeighborWorks America) Financial Statements, Schedule of Expenditures of Federal Awards, and Independent Auditor's Reports Required by Government Auditing Standards and the Uniform Guidance Years Ended September 30, 2021 and 2020* (Potomac, Md.: Apr. 25, 2022).

⁷²For NeighborWorks, the Board of Directors and its Audit Committee are identified as those charged with governance. Auditing standard AU-C section 260, *Auditor's Communication with Those Charged with Governance*, addresses the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. The standard defines those charged with governance as persons with responsibilities for overseeing the strategic direction of the entity, including overseeing the financial reporting process.

NeighborWorks management's cooperation was excellent and that it received full access to all information requested during the audit.

Conclusions

Over the last 10 years, NeighborWorks has developed or revised policies and procedures relating to procurement, conflicts of interest, and whistleblowers. For instance, NeighborWorks centralized the procurement process, began implementing a new procurement system to address some internal control weaknesses, and updated its Code of Ethical Conduct and whistleblower policy. However, NeighborWorks has not always taken steps to help ensure policies, processes, and systems were implemented effectively and activities were reviewed regularly.

We identified opportunities for improvement and additional internal controls in the following procurement-related areas: training on procedures, communicating policy changes, monitoring of micropurchase transactions, and implementation of controls in the new procurement system. NeighborWorks staff inconsistently followed the organization's policies and the extent to which the new procurement system will incorporate controls to help address these issues is unclear. By addressing these weaknesses, NeighborWorks can better ensure procurements are processed properly and transactions adhere to requirements.

We also identified areas in which conflicts of interest and whistleblower policies and procedures—relating to documentation, investigations, and preventing retaliation—could be strengthened. By addressing these weaknesses, NeighborWorks could better ensure conflicts are appropriately resolved and violations of law or policy or misuse of taxpayer funds are identified and addressed.

Finally, NeighborWorks' Internal Audit met The International Standards for the Professional Practice of Internal Auditing in nine of 11 areas, but partially met the independence and objectivity and quality assurance and improvement program standards. By fully addressing these standards, Internal Audit can assess its effectiveness and ensure staff remain objective.

Recommendations for Executive Action

We are making the following 10 recommendations to NeighborWorks America:

NeighborWorks America's President and Chief Executive Officer should ensure that the Chief Financial Officer develops and implements formal training for Procurement staff and staff in the business units who work on

procurement about its procurement policies and procedures (including on writing the scope of work) and the regulatory requirements to which the organization adheres. (Recommendation 1)

NeighborWorks America's President and Chief Executive Officer should ensure that the Chief Financial Officer develops and implements a formalized process to communicate procurement policy changes to Procurement staff and staff who work on procurements across the organization before implementing changes. (Recommendation 2)

NeighborWorks America's President and Chief Executive Officer should ensure that the Chief Financial Officer finalizes and implements a plan to regularly review micropurchase transactions, including in the aggregate, for adherence to policy thresholds. (Recommendation 3)

NeighborWorks America's President and Chief Executive Officer should direct that the Chief Financial Officer takes steps to ensure that the PRISM system includes controls for completion, review, and approval of all required documentation, such as by periodically auditing the effectiveness of the controls. (Recommendation 4)

NeighborWorks America's President and Chief Executive Officer should ensure the Ethics Officer develops and implements procedures for documenting potential conflicts of interest and their final determinations. (Recommendation 5)

NeighborWorks America's President and Chief Executive Officer should ensure that the Ethics Officer in collaboration with the Board of Directors develops and implements written procedures for steps staff should take when receiving a whistleblower complaint and for conducting objective and independent investigations. This could include exploring entering into an agreement with an appropriate Inspector General's Office to receive and investigate NeighborWorks whistleblower complaints. (Recommendation 6)

NeighborWorks America's President and Chief Executive Officer should ensure that the Ethics Officer in collaboration with the Board of Directors revises the whistleblower policy to include periodic follow-ups with complainants after the investigation has been completed. (Recommendation 7)

NeighborWorks America's Chief Audit Executive in collaboration with the Audit Committee should develop and implement a formalized process to

document and communicate restrictions on internal auditors from assessing specific operations for which they were previously responsible in accordance with The International Standards for the Professional Practice of Internal Auditing on impairments to independence or objectivity. (Recommendation 8)

NeighborWorks America's Chief Audit Executive in collaboration with the Audit Committee should develop and implement a formal continuous quality assurance and improvement program that includes performing periodic self-assessments and conducting an external assessment every 5 years to adhere to The International Standards for the Professional Practice of Internal Auditing on quality assurance and improvement programs. (Recommendation 9)

NeighborWorks America's Chief Audit Executive in collaboration with the Audit Committee should remove language from audit reports (starting with 2017) indicating that audits were conducted in accordance with The International Standards for the Professional Practice of Internal Auditing until an external assessment has been conducted and an internal quality assessment and improvement program that includes periodic self-assessments has been implemented. (Recommendation 10)

Agency Comments

We provided a draft of this report to NeighborWorks for review and comment. NeighborWorks provided written comments, which are reproduced in appendix II. NeighborWorks agreed with our recommendations and stated that management has developed a corrective action plan for the Board to consider and approve. NeighborWorks stated that management plans to report their progress towards implementing the corrective actions to the Board on a quarterly basis. NeighborWorks also noted that recommendations related to Internal Audit will be addressed by the Chief Audit Executive and approved by the Audit Committee. In addition, NeighborWorks provided technical comments, which were incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees; the President and Chief Executive Officer of NeighborWorks, and other interested parties. The report is also available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or CackleyA@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on

the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Alicia Puente Cackley". The signature is written in a cursive, flowing style.

Alicia Puente Cackley
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines the extent to which NeighborWorks America established effective policies, procedures, and internal controls for (1) procuring goods and services (including managing conflicts of interest); and (2) managing internal risks related to nonprocurement conflicts of interest, whistleblowers, and audits.

Review of Procurement Policies and Procedures

For the first objective, we compared NeighborWorks' written policies for procurements, including their purchase card policy, against 2 C.F.R. part 200, federal internal control standards, and GAO leading practices.¹ NeighborWorks was creating new policies for procurement during the course of our review, so we compared their prior and 2023 policies against those standards. We reviewed external and internal audit reports for fiscal years 2011–2021 related to NeighborWorks' procurement to identify any control weaknesses. We also reviewed the auditor files of NeighborWorks' external auditor to determine whether they identified weaknesses in controls or findings related to procurement in NeighborWorks' fiscal year 2021 financial statements audit. In addition, we interviewed staff of the Department of Housing and Urban Development's Office of Housing Counseling who were conducting a financial administrative review of their grants to NeighborWorks.

We also reviewed a nongeneralizable sample of 22 contract files and 42 purchase card transactions for fiscal years 2019–2021 against the organization's policies.² To determine our contract sample, we selected competitive and sole-source contracts that represented each dollar-based procurement procedure NeighborWorks used during the period of our review (see table 5).

Table 5: Types of Procurement Procedures Used for Our Sample of NeighborWorks Procurements, by Size, Fiscal Years 2019–2021

Contracts by size	Competitiveness
4 small purchase (\$3,501 through \$20,000)	2 competitive
6 simplified acquisitions	3 competitive

¹GAO, *A Framework for Assessing the Acquisition Function at Federal Agencies*, [GAO-05-218G](#) (Washington, D.C.: Sept. 1, 2005); and *Human Capital: A Guide for Assisting Strategic Training and Development Efforts in the Federal Government*, [GAO-04-546G](#) (Washington, D.C.: Mar. 1, 2004).

²During fiscal years 2019–2021, NeighborWorks executed 714 contracts and made 11,681 purchase card transactions.

Appendix I: Objectives, Scope, and Methodology

Contracts by size	Competitiveness
(\$20,001 through \$99,999)	3 sole source
12 formal acquisitions	8 competitive
(\$100,000 or more)	4 sole source

Source: GAO. | GAO-23-105944

We also selected contracts that represented a diversity of other characteristics, including their originating business office, the goods or service to be procured, and whether they were related to a whistleblower complaint. We included NeighborWorks' contract with its external auditor in our sample. To review the contract files, we created a data collection instrument that listed the documents and approvals required for contracts, based on their value. For example, the instrument included questions about whether contract files included evidence of market research, an independent price estimate, checks for the vendor in the System for Awards Management, and conflicts of interest attestations for technical evaluation panels.³ We then determined whether each file in our sample contained the required documents and approvals.

We also created a data collection instrument for our review for the purchase card sample, which recorded whether transaction files included required documentation and approvals based on NeighborWorks' purchase card policy. To determine our sample, we created a randomized list of purchase card data for each fiscal year. We then selected 14 transactions from each year by selecting every seventh transaction on the list. To ensure that the sample included a variety of departments and cardholders, we picked the next transaction in a list once a cardholder or department had been selected more than twice. For each transaction, we determined whether the data provided by the organization included documentation such as the required receipt, monthly reconciliation statement, approval of the reconciliation statement, and preapproval (when applicable).

To determine whether NeighborWorks' employees exceeded the organization's purchase card limits, we examined data from U.S. Bank for all purchase card transactions for fiscal years 2017–2022. We reviewed whether individual transactions exceeded policy thresholds and whether multiple purchases to the same vendor over a fiscal year exceeded policy

³The System for Awards Management is the primary database for information on entities that do business with the federal government. Recipients of federal funds need to register in it to receive the funds.

thresholds. For all purchases that appeared to exceed thresholds, we interviewed NeighborWorks representatives and reviewed additional documentation, including approvals, to determine whether they were allowed under certain policy exceptions. Based on our review of NeighborWorks' purchase card data, we determined its data were sufficiently reliable for reviewing purchase card transactions above NeighborWorks' policy thresholds and selecting a nongeneralizable sample of purchase card transactions to review their files.

We also analyzed data from NeighborWorks' finance and procurement systems to obtain descriptive statistics about the total number of contracts NeighborWorks executed over the period of our review and whether the contract dollar amounts in the two systems matched. NeighborWorks' main procurement system for the period of our review was maintained manually by staff inside and outside of the Procurement Department.

Although the system lacked some controls related to who could enter and edit data, based on our discussions with NeighborWorks, we determined the data were reliable for describing the total number of contracts during the period of our review. However, the data were not reliable for describing the number of contracts that were competitive or sole source or the total dollar amount of contract values. Based on our review of NeighborWorks' finance system's controls, we determined its data were sufficiently reliable for identifying differences between contract payments in NeighborWorks' procurement and finance data systems from October 1, 2017 through August 1, 2022.

To review the internal controls in NeighborWorks' new procurement system (PRISM), we reviewed documentation related to the system, including system and user guides and training manuals. We also reviewed what data were required to be entered into the system and be validated before the system allowed a procurement to move forward. NeighborWorks procurement staff also provided us with a demonstration of the system, showing how a procurement is tracked and documented in the system.

Review of Conflict of Interest and Whistleblower Policies and Procedures

For the second objective, we analyzed NeighborWorks' policies, procedures, and internal controls for nonprocurement conflicts of interest and whistleblower complaints against 2 C.F.R. part 200, federal internal control standards, and other leading practices. Because NeighborWorks updated its conflicts of interest and whistleblower policies during the time

of our review (in October 2022), we analyzed policies that had been in effect since at least fiscal year 2011 and their new policies.⁴

For nonprocurement conflicts of interest, sources of leading practices were the guidelines federal agencies provided to grantees on complying with the conflict of interest requirements of 2 C.F.R. part 200 and Internal Revenue Service recommendations for nonprofit organization conflict of interest policies.⁵ The specific practices against which we compared NeighborWorks' policies included identifying individuals covered by the policy, defining conflicts of interest, prohibiting employees from accepting gifts or favors in excess of a minimum value, and including a duty to disclose conflicts of interest.

For whistleblower complaints, sources of leading practices were the GAO Fraud Risk Framework, the Occupational Safety and Health Administration's (OSHA) recommendations for creating a retaliation-free workplace, and the Office of Management and Budget's memorandum on promoting accountability among executive departments and agencies.⁶ The specific practices against which we compared NeighborWorks' policies included providing multiple channels to make complaints (including hotlines), providing ways for non-employees to report complaints, allowing for anonymous complaints, prohibiting retaliation,

⁴NeighborWorks' original Code of Ethical Conduct, which included its conflict of interest policy, went into effect in May 2010, and its whistleblower policy in October 2005.

⁵More specifically, the guidelines were in the Department of Housing and Urban Development's Code of Conduct for HUD Grant Programs, Department of Justice's Grants Financial Guide 2022, and its Office of Justice Programs - Territories Financial Support Center's Conflict of Interest Guide Sheet; and Internal Revenue Service Instructions for Form 1023 and Instructions for Form 990 Return of Organization Exempt from Income Tax.

⁶OSHA's Whistleblower Protection Program enforces the whistleblower provisions of 22 federal statutes protecting employees who raise or report concerns about hazards or violations of various laws, such as workplace health and safety, consumer products, and securities. In that capacity, OSHA developed a set of recommendations to assist employers in creating workplaces that are free from retaliation for making whistleblower complaints. OSHA intended the recommendations to be broadly applicable to all public- and private-sector employers that may be covered by any of these whistleblower statutes, although OSHA noted the principles can be applied where other whistleblower and anti-retaliation protections apply. See Occupational Safety and Health Administration, *Recommended Practices for Anti-Retaliation Programs*, OSHA 3905 (Washington, D.C.: 2017); GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015); and Office of Management and Budget, *Promoting Accountability through Cooperation among Agencies and Inspectors General*, M-22-04 (Washington, D.C.: Dec. 3, 2021).

providing regular whistleblower training, and requiring complaints to be investigated using an objective, independent review process.

We also reviewed conflicts of interest and whistleblower complaints and their investigations identified by NeighborWorks. Although we requested all potential conflicts of interest from fiscal years 2011 through August 2022, NeighborWorks was only able to provide documentation since 2016.

Review of Audits

To review NeighborWorks' internal audit function, we analyzed the office's governing documents (such as the internal audit charter, standard operating procedures, and the Audit Committee charter) against the International Standards for the Professional Practice of Internal Auditing.⁷ The standards are principle-based and provide a framework for performing and promoting internal auditing. They cover such topics as independence and objectivity, proficiency and due professional care, quality assurance and improvement, and managing the internal audit activity.

We reviewed Internal Audit's reports for fiscal years 2011–2022 and compared them to the annual audit plans. In addition, we reviewed the Board of Directors and Audit Committee meeting minutes from October 2010 to August 2022 for all discussions related to the internal audit function, including annual risk assessments, audit reports, and discussion of audit resources.

For our review of the external audit, we reviewed NeighborWorks' fiscal year 2021 financial statements audit, including the schedule of expenditures of federal awards, and independent auditor's reports, which are required to be submitted for an audit performed in accordance with subpart F of 2 C.F.R. part 200 and generally accepted government auditing standards. This type of audit is also referred to as a Single

⁷The standards were developed by The Institute of Internal Auditors, an international professional association that is a recognized authority on internal auditing.

Audit.⁸ We accessed the Federal Audit Clearinghouse to review the data collection form and the reporting package to analyze its elements against 2 C.F.R. part 200 subpart F. We also reviewed the external auditor's fiscal year 2021 audit engagement letter, which included a copy of the auditor's quality control review report (peer review) as required by generally accepted government auditing standards. The peer review report, dated December 4, 2018, received a pass rating.

In addition, we reviewed the external auditor's audit files for fiscal year 2021 to

- analyze the audit scope, reports, and findings against the audit provisions of 2 C.F.R. part 200;⁹
- identify documented communications between the auditor and NeighborWorks' management throughout the course of the financial statements audit; and
- identify any weaknesses in internal controls or findings the auditor identified but did not include in financial reporting and any action management took to address the weaknesses.

Our review of NeighborWorks' fiscal year 2021 financial statements audit, as differentiated from an audit of the financial statements, was not intended to enable us to express, and we do not express, an opinion on NeighborWorks' financial statements or conclude on the effectiveness of its internal control over financial reporting. The external auditor is responsible for its reports on NeighborWorks dated April 25, 2022, and the conclusions expressed therein.

We also reviewed internal NeighborWorks documents that (1) govern the solicitation and acquisition of external audit services; and (2) describe the roles and responsibilities of NeighborWorks management, Board of Directors, and Audit Committee regarding the solicitation, acquisition, and

⁸Under the Single Audit Act and implementing guidance from the Office of Management and Budget, states, the District of Columbia, localities, Indian tribes, U.S. territories, and nonprofit organizations that receive federal awards must undergo single audits (or, in limited circumstances, program-specific audits) of these awards annually (unless a specific exception applies) when federal award expenditures meet or exceed \$750,000 during a fiscal year. The Single Audit Act is codified at 31 U.S.C. §§ 7501-06, and implementing Office of Management and Budget guidance is reprinted in 2 C.F.R. part 200. The Act requires a "single audit" of the entity's financial statements and schedule of expenditures of federal awards for the fiscal year. 31 U.S.C. § 7502(d); 2 C.F.R. § 200.501.

⁹2 C.F.R. §§ 200.514-200.520.

subsequent engagement, oversight, and communication with external auditors, and audit findings follow-up.

Focus Groups

For both objectives, in November 2022, we conducted five focus groups with NeighborWorks staff on their knowledge and experience with the organization's procurement process, Internal Audit, and conflicts of interest and whistleblower policies. Each group contained from seven to 10 participants for a total of 43 participants across the five groups. We divided all staff as of May 2022 into groups based on their job responsibilities (manager and nonmanager), contract delegation of authority, department function, and office location. We then randomly selected participants within those groups. We excluded senior management (such as senior and regional vice presidents and executives) and departments whose work closely related to our review or the sensitive nature of which may have limited participants' willingness to speak openly.¹⁰

All focus groups were conducted virtually over Zoom and were recorded. The groups involved structured small-group discussions guided by a GAO moderator and were intended to generate in-depth information about the reasons for the participants' views on specific topics. The focus groups also included six poll questions using the Zoom polling feature. The poll questions were all multiple-choice or yes/no and responses from the poll were shared anonymously during the focus group to help guide discussion.

The focus group recordings were then transcribed by an outside vendor, and we used the transcripts to summarize participants' responses. We performed a content analysis on the responses to identify common themes from across the responses to determine their frequencies. An initial coder assigned a code that best summarized the statements from participants. A separate individual reviewed and verified the accuracy of the initial coding. The initial coder and reviewer discussed orally and in writing any disagreements about code assignments and documented consensus on the final analysis results. The opinions expressed by the participants represent their points of view and cannot be generalized to all NeighborWorks employees.

¹⁰These departments were Internal Audit, Procurement, Office of General Counsel, Human Resources, Office of the Chief Executive Officer, Office of the Chief Financial Officer, Office of the Chief Operating Officer, and Public Policy and Legislative Affairs.

Interviews

In addition, we conducted group interviews with senior management, the Procurement Department, Internal Audit, and members of the Finance Department with responsibilities related to the financial system about policies, procedures, and internal controls related to procurement, conflicts of interest, whistleblower complaints, Internal Audit, or the external audit. We conducted individual interviews with each member of the Board of Directors and with the Chief Financial Officer, former General Counsel, Deputy General Counsel and Ethics Officer, Senior Vice President of Human Resources, each employee of the Procurement Department (including the Senior Vice President), each employee of Internal Audit (including the Chief Audit Executive), and an employee who contacted us.¹¹

We also interviewed a selection of 12 former staff who left NeighborWorks in fiscal years 2019–2022, including former Procurement staff (including the former Senior Vice President), former executives, and others to get their views on these same topics. We selected former staff based on their department (Procurement, Internal Audit, Office of General Counsel, Training, and National Initiatives) and other criteria. The information collected from this selection of former employees cannot be generalized to all former employees.

We interviewed two of the four whistleblowers identified by NeighborWorks about the content of their complaints and their experiences as whistleblowers. The other two whistleblower complaints were anonymous. Finally, we interviewed NeighborWorks' 2021 external auditors to obtain their understanding of the organization's internal controls related to procurement and the involvement of Internal Audit.

We conducted this performance audit from March 2022 to June 2023 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 objectives.

¹¹The General Counsel left NeighborWorks in March 2023. We interviewed him while he was still serving as General Counsel.

Appendix II: Comments from NeighborWorks America



May 26, 2023

Ms. Alicia Puente Cackley
Director, Financial Markets and Community Investment

Ms. Karen Tremba
Assistant Director
U.S. Government Accountability Office
Washington, DC 20548

Dear Ms. Cackley and Ms. Tremba:

Thank you for providing the Neighborhood Reinvestment Corporation (dba NeighborWorks America) an opportunity to review the Government Accountability Office's (GAO) draft report titled, *Significant Improvements in Policies and Procedures Are Needed at NeighborWorks America*. Technical edits have been provided separately.

As part of this review, the GAO provided ten recommendations to improve NeighborWorks' procurement, conflicts of interest, whistleblower policies and procedures, and internal audit functions, along with recommendations to provide additional trainings to staff. We greatly appreciate the work of the GAO, agree with the findings, and will work diligently to implement the recommendations.

To address these recommendations, NeighborWorks management has developed a comprehensive corrective action plan that outlines our approach and timelines for improving NeighborWorks' policies, procedures, and internal controls for the consideration of, and approval by our Board of Directors. Recommendations made regarding the Internal Audit function will be addressed by the Chief Audit Executive and affirmed by NeighborWorks' Board of Director's Audit Committee to whom the Chief Audit Executive reports. NeighborWorks anticipates approval of the plan for remediation by the end of Fiscal Year 2023. Management will report on a quarterly basis to NeighborWorks' Board of Directors on progress to completion of the corrective actions outlined by the plan.

NeighborWorks America remains committed to advancing our mission to create opportunities for people to live in affordable homes, improve their lives, and strengthen their communities. We take seriously our role in shepherding these recommendations to completion, which will help to strengthen our organization and thereby the communities we serve.

Sincerely,

A handwritten signature in black ink that reads "Marietta Rodriguez".

Marietta Rodriguez
President & CEO

1255 Union Street NE Suite 500 Washington, D.C. 20002 www.NeighborWorks.org

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Alicia Puente Cackley, (202) 512-8678 or CackleyA@gao.gov

Staff Acknowledgments

In addition to the contact named above, Karen Tremba (Assistant Director), Katherine Carter (Analyst in Charge), Lauren Capitini, William Chatlos, James Dalkin, Rachel DeMarcus, Suellen Foth, Baltazar Hernandez, Nicholas Jones, Jill Lacey, Vivian Ly, John McGrail, Scott McNulty, Marc Molino, Maria Morton, Nicholas Pigeon Rossy, Laura Philpott, Barbara Roesmann, Shannon Smith, Rebecca Sero, and Jingxiong Wu made key contributions to this report.

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