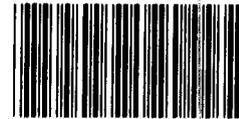


July 1992

COMMUNITY
DEVELOPMENT

Neighborhood
Reinvestment
Corporation Should
Improve Program
Management



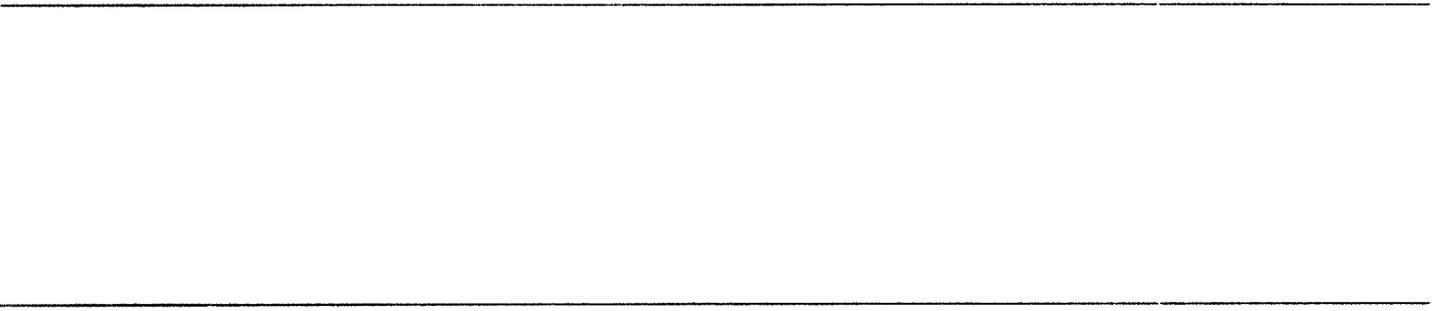
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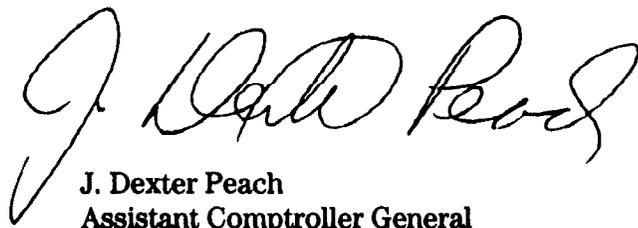
The Honorable Barbara A. Mikulski
Chairwoman, Subcommittee on VA, HUD,
and Independent Agencies
Committee on Appropriations
United States Senate

The Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing and
Community Development
Committee on Banking, Finance and Urban
Affairs
House of Representatives

This report responds to your requests that we review certain aspects of the Neighborhood Reinvestment Corporation. The Corporation assists local organizations called NeighborWorks by providing technical assistance and grants to improve older neighborhoods. Specifically, the report addresses the oversight of the NeighborWorks Organizations by the Corporation, its grant management practices, and its policies governing contracting for goods and services.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Executive Director of the Corporation and other interested parties. We will also make copies available to others upon request.

This work was performed under the direction of Judy A. England-Joseph, Director, Housing and Community Development Issues, who can be reached on (202) 275-5525 if you or your staff have any questions. Other major contributors are listed in appendix II.



J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

The Congress created the Neighborhood Reinvestment Corporation (Corporation) in 1978 to promote reinvestment in older neighborhoods by local financial institutions working cooperatively with community residents and local governments. The Corporation assists neighborhoods in establishing a working partnership of private and public-sector organizations and then provides technical assistance and a total of about \$6 million a year in grants to these entities, known as NeighborWorks Organizations (NWO). NWOs employ revolving loan funds as a principal tool for revitalizing neighborhoods and other purposes. At the end of fiscal year 1991, there were 174 NWOs in 145 cities located in 43 states, the District of Columbia, and Puerto Rico. GAO was asked to examine the Corporation's (1) oversight of local neighborhood organizations, (2) grant management practices, and (3) competition requirements for contracting for goods and professional services.

Background

Although the Corporation is not a federal agency, about 94 percent of its \$28.6 million in fiscal year 1992 income came from federal appropriations. A primary mission of the Corporation is to provide technical assistance to the NWOs and training for their Executive Directors. The Corporation also awards NWOs two types of grants—capital grants, which provide loan funds, and expendable grants, which pay for items such as operating expenses. Because NWOs receive funds from other sources, Corporation grants typically provide about 6 percent of an average NWO's budget. The Corporation's oversight of NWOs' operations primarily consists of periodic program reviews and annual financial audits. Comprehensive program reviews cover all aspects of the NWOs, including their internal controls and financial management system. Each NWO is required to submit an annual financial audit to the Corporation, which expresses an opinion on the fairness of the presentation of the NWO's financial statements.

The Corporation awards contracts for both goods and professional services. It generally requires that any contract for goods costing over \$1,000 be competitively awarded, but until January 1991, when the Corporation established a \$10,000 threshold, it had no such dollar limit for competitive awards of professional service contracts.

Results in Brief

GAO found that the Corporation lacks assurance that its program reviews and financial audits adequately oversee NWOs. Program reviews did not provide the Corporation with adequate and timely programmatic or financial information. The reviews were inadequate, in part, because

reviewers did not receive clear guidance on how to perform and document the review work. Furthermore, the Corporation did not require NWOs to correct weaknesses identified in the reviews. The annual financial audits have also been of little use in overseeing the NWOs' performance, especially with respect to Corporation grants. A majority of the audit reports were submitted late and did not separate Corporation grant funds from other grant funds, as required.

Poor oversight by the Corporation hampered its efforts to provide sound grant management. Oversight is intended to promptly alert the Corporation of potential problems at NWOs before they become critical. GAO found that the Corporation's oversight activities often did not detect NWOs that had transferred capital grant funds to pay for operating expenses without obtaining the required Corporation approval.

Since January 1991, the Corporation has increased its reliance on competition in awarding contracts for professional services and is developing policy changes that are aimed at further increasing competition in its procurements. However, it is not yet clear how effective the policy changes will be. Lowering the dollar threshold over which competitive bidding is required would guarantee increased competition.

Principal Findings

Corporation's Oversight of NWOs

Effective Corporation oversight is needed to ensure that NWO performance problems are identified. The Corporation performed analyses, in both June 1991 and January 1992, to measure the health of individual NWOs and the network as a whole. The analyses found that about one-third of the NWOs' performance was marginal or unsatisfactory in fulfilling various standards, such as planning and organizational development.

Weaknesses in the two primary tools the Corporation uses to oversee NWO activities have limited the tools' usefulness in identifying and correcting performance problems. For example, the usefulness of the program review process was hampered because the guides given to reviewers outlining the review work to be done were not specific and the documentation required from the reviewer did not indicate what basis the reviewer had for making judgments. The absence of adequate guides and documentation does not allow Corporation management to determine the reliability of the program

reviews or the consistency of the review work done at different NWOS. In addition, until the end of fiscal year 1991, the Corporation did not require NWOS to correct problems noted in a program review report. Because of this, NWOS continue to experience the same problems.

GAO also found problems in the financial audit process that significantly affected its usefulness as an oversight tool. The Corporation required NWOS to submit a financial audit within 120 days of the end of each fiscal year. However, GAO found that, between 1988 and 1990, NWOS were late in submitting their audits on 304 occasions—more than 6 months late on 71 occasions. The Corporation also requires that the audit separate Corporation grant moneys from other moneys so that it can use the audit to oversee actions taken with its grant funding. A Corporation study done in 1991 found that 52 percent of all audit reports for 1990 did not separate Corporation grant funds.

While GAO's review was ongoing, the Corporation was developing and testing changes to its oversight system. According to the Corporation, this process began in October 1990. During fiscal year 1992, the Corporation began to implement some of the changes to its oversight system, such as requiring NWOS to develop corrective action plans based on problems identified in a program review, that are intended to address many of the concerns discussed above; other changes are scheduled to be fully implemented during the fall of 1992.

Corporation's Grant Management Practices

Oversight problems have hampered the ability of the Corporation to ensure that its grant funds are properly used and accounted for. In 1991, the Corporation determined the amount of its capital grant funds awarded to 129 NWOS that were still available. The Corporation found that while capital funds should maintain their value over time, the amount available had decreased by about \$2 million, or 17 percent of the total \$11.6 million awarded. Part of the decrease occurred because NWOS had not effectively used grant funds. For example, the Corporation found that 22 NWOS had transferred about \$625,000 in capital funds to cover operating expenses without obtaining Corporation authorization; 9 NWOS could not account for about \$150,000 in capital funds; and 16 NWOS had incurred losses of \$431,000, primarily because of unpaid loans.

The Corporation continued to award grants to NWOS that had not yet submitted an audit for the previous year—in 1988-90, the Corporation awarded grants totaling about \$3 million to 66 such NWOS—and to those

NWOS whose audit reports did not separate Corporation grant funds. Unless audits are submitted and reviewed, the Corporation lacks assurance that funds are being effectively used.

Increasing Competitive Bidding

Before January 1991, no competition was required for Corporation contracts for professional services. In that month, the Corporation established a requirement for competitive bidding for such contracts over \$10,000. During the remainder of fiscal year 1991, a higher proportion of the contracts was awarded competitively. The Corporation is developing a policy that is aimed at further increasing competition by establishing a pool of qualified consultants and contractors to whom contracts can be awarded. At this time, it is unclear to what extent the policy will increase competition. If the new policy is ineffective, the Corporation could realize an immediate increase in the competitive bidding of contracts by lowering its threshold for such bidding from \$10,000 to \$2,500—the threshold for federal government agencies.

In 1991, the Corporation awarded six contracts to former employees on a sole-source basis. The Corporation's Executive Director told GAO that he recognized the sensitive nature of awarding noncompetitive contracts to former employees and that he approves such contract awards and requires that they include considerable justification. However these procedures are not reflected in the Corporation's administrative manual.

Recommendations

GAO recommends that the Corporation's Executive Director assess whether the process to increase competitive bidding on professional service contracts is effective, and if found lacking, evaluate lowering the threshold for competitive bidding. Also, the Executive Director should ensure that the Corporation's administrative manual is revised to specify that the Executive Director approve all sole-source contracts to former employees.

Agency Comments

GAO did not get written comments from the Corporation but did discuss the report with the Executive Director and other senior officials. They agreed that a number of weaknesses exist in its oversight and contracting systems and are taking steps to improve them.

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Abbreviations

AIP	Apartment Improvement Program
GAO	General Accounting Office
MHA	Mutual Housing Association
NHS	Neighborhood Housing Services
NRC	Neighborhood Reinvestment Corporation
NWO	NeighborWorks Organization
PROMPT	Planning, Resource Development, Organizational Oversight, Management, Production and Program Services, and Technical Operating Systems

Introduction

The Neighborhood Reinvestment Corporation (NRC) was created by the Housing and Community Development Act Amendments of 1978 (42 U.S.C. 8101 et seq.) to promote reinvestment in older neighborhoods by local financial institutions working cooperatively with community residents and local governments. The act was passed as a result of a demand for neighborhood housing services in cities throughout the United States. The Congress believed that this demand warranted programs to revitalize older neighborhoods by mobilizing public, private, and community resources at the neighborhood level.

The act specifies that NRC shall not be considered a department, agency, or instrumentality of the federal government, and that NRC officers and employees shall not be considered as being officers or employees of the U.S. government. NRC headquarters is located in Washington, D.C.; it has nine district offices throughout the United States.

NRC's budget for fiscal year 1992 is about \$28.6 million, of which about 94 percent came from congressional appropriations. The remaining 6 percent includes interest income, project development and registration fees, and donations. About 64 percent of the budget is spent to create new or expand existing neighborhood programs and to provide affordable housing. Another 15 percent is used for activities such as training NRC staff and local organizations' executive directors and for information services. The remaining 21 percent is spent for program reviews and administrative purposes.

NRC's fiscal year 1992 appropriation legislation provided an additional \$5 million to provide neighborhood organizations with funds that could be loaned to people to help them buy or rehabilitate homes or to provide capital for affordable lower-income rental projects. These funds are to be received in eight quarterly payments beginning in September 1992.

NRC assists neighborhoods by establishing a working partnership of private and public-sector organizations, such as local governments, foundations, businesses, corporations, and community organizations. After someone from a city contacts NRC about starting such a partnership, NRC makes an on-site assessment visit. Selection criteria include community needs, local resource availability, and the potential for a strong partnership.

In forming the organization, NRC helps to (1) analyze neighborhood needs; (2) solidify local partnership commitments and resources; (3) develop a committee structure to address issues such as resource development,

community relations, neighborhood strategy development, and site acquisition; (4) establish a nonprofit organization; (5) hire staff; and (6) establish operating procedures; financial management systems; and construction, lending, and asset management policies. NRC's field service officers, who are assigned to each of the district offices, are responsible for helping to develop, coordinate, implement, and support the neighborhood organizations. At the completion of the process, NRC typically commits start-up funding in the \$25,000 to \$35,000 range.

NRC Works With Three Types of Organizations

The local organizations that NRC assists are known collectively as NeighborWorks (NWOs). There are three different types of NWOs—Neighborhood Housing Services (NHS), Mutual Housing Associations, and Apartment Improvement Programs. As of the beginning of fiscal year 1992, there were 174 active NWOs in 145 cities in 43 states, the District of Columbia, and Puerto Rico. (See app. I for a list of NWOs and their locations.) Of the 174 NWOs, 158, or about 91 percent, are Neighborhood Housing Services. There are nine Mutual Housing Associations and seven Apartment Improvement Programs.

On the average, NRC funds provide about 6 percent of an NHS' operating budget. The two most common sources of funding for the operating budget are local governments, which provide 28 percent of the budget, and contributions from financial institutions, which provide 14 percent. The next most common sources of funding are state governments, private businesses, foundations, and insurance companies. Income generated by the NHS organizations' various programs and services account for 14 percent of the operating budget.

Neighborhood Housing Services

NHSS are partnerships of local business leaders, local government officials, and neighborhood residents. They provide loans to residents and are NRC's main vehicle for revitalizing distressed neighborhoods. An NHS ensures that certain services are available to those residents that need them, including

- financial counseling to neighborhood residents and referrals to financial institutions and other agencies;
- lending by financial institutions to provide mortgage and home improvement loans;
- loan resources from local and state governments when clients can meet their criteria; and

-
- a revolving loan fund to meet the mortgage needs of clients who would not qualify for a bank loan and, in some cases, to provide equity capital for specific projects.

In 1989-90, the average balance of an NHS organization's revolving loan fund was just over \$200,000, but the median balance was \$88,000. The largest contributor to the NHS' revolving loan fund, about 53 percent of the average loan fund, is city governments, which act as a conduit for Community Development Block Grant funds from the Department of Housing and Urban Development. Other large contributors include state governments and financial institutions. On the average, NRC funds account for about 2 percent of the revolving fund.

Mutual Housing Associations

For the families who cannot afford homeownership, mutual housing may be the next best alternative. A Mutual Housing Association owns properties and rents units in those properties to association members. To qualify for a unit, members pay a membership fee (about 5 percent of the value of the unit), which is returned with nominal interest when they move. Although members do not have an equity interest and therefore do not participate in capital appreciation or depreciation, they enjoy a voice in association management and the security of long-term tenure. Each association's board of directors is drawn from the public and private sectors and from the residents. According to NRC criteria, the majority of each board must comprise the residents of association units and members waiting for units.

Apartment Improvement Programs

The Apartment Improvement Program strives to improve the quality of life for tenants in large apartment buildings. (The program does not own the buildings.) By bringing together tenants, owners, lenders, local government officials, and neighborhood organizations, the program provides a forum for people to discuss their concerns and work together to improve the buildings' appearance, safety, and spirit of community. The program can create a higher quality of life for renters and a more secure investment for owners.

According to NRC, as of December 31, 1991, these programs together served about 4 million residents in about 1.5 million housing units. In the neighborhoods served by NRC, (1) 38 percent are homeowners, (2) the average borrower from an NWO's revolving loan fund has a family annual income of about \$18,100, (3) women make up about 50 percent of the loan

fund's borrowers, and (4) about 42 percent of the neighborhoods served have minority populations exceeding 50 percent of the total population.

A foremost NRC goal is to develop the capability of the community leaders to manage their own affairs, solve problems, create a stable real estate market, and reach goals they have set for themselves. When a neighborhood has reached this level, a successor organization to the NWO may be formed and the neighborhood declared to be self-reliant. In considering whether to designate the neighborhood as self-reliant, NRC determines if the neighborhood has developed leadership, has mechanisms in place to address neighborhood issues, involves residents, has a plan for future neighborhood interaction, has an overall positive physical environment, and has substantially completed its goals.

From the inception of the program through October 1, 1991, 87 neighborhoods were judged to be self-reliant. According to NRC, once this level is reached, the NWO staff can begin focusing its resources on additional neighborhoods. While NRC's staff do not provide continuous technical assistance to the successor organizations in the self-reliant neighborhoods, it does provide limited services. For example, until 1991 self-reliant neighborhoods could apply to NRC for grants of up to \$1,500 for projects that would have a positive impact on the neighborhood or strengthen the neighborhood's organization.

Between July 1988 and December 1991, 19 NWOs dropped out of the network. Thirteen of them legally dissolved or were dissolving, one became inactive, and two merged with an existing NWO. Also, three NWOs became self-reliant during the period.

NRC Awards Grants to NWOs

In both fiscal years 1990 and 1991, NRC awarded about \$10 million in grant funds. About \$6 million of these funds was awarded to NWOs, and the remaining grant funds were awarded as training grants or were awarded to NRC's secondary mortgage market operation. The secondary mortgage market gives the NWOs an opportunity to sell their loans, and the proceeds are used to help other neighborhood residents. NRC anticipates that in fiscal years 1992 and 1993, the level of grants will remain about constant. NRC categorizes its grants as expendable and capital grants. Expendable grants are used for services that are consumed, such as short-term financial assistance to NWOs for offsetting staff salary costs or purchasing supplies for a neighborhood cleanup campaign or other specific project. In

fiscal year 1991, NRC awarded 169 expendable grants worth about \$3.2 million.

According to NRC, capital grants maintain their value over time. Capital grant funds are placed in an NWO revolving loan and capital projects fund. This fund is used to make low-interest loans to (1) low- and moderate-income persons wanting to make home improvements or to purchase a home and (2) owners of mixed-use properties (commercial/residential) providing long-term affordable rental housing opportunities to low- and moderate-income persons. Additionally, NWOs can use capital grants to purchase, construct, or rehabilitate properties for neighborhood revitalization, and to pay for project development costs such as architectural and engineering fees and marketing analyses. In fiscal year 1991, NRC awarded 54 capital grants totaling about \$2.7 million.

Each year, NWOs apply to NRC for capital and/or expendable grants. The total amount of grant funding available from NRC depends on NRC's appropriation and its anticipated program and administrative expenses. NRC's nine district directors make recommendations to NRC's executive management concerning NWOs' grant requests in their district. Final funding decisions are based on need, how the grant's purpose achieves an NWO's goals, and the NWO's past performance. In considering past performance, NRC evaluates how the NWO complied with NRC requirements. For example, NRC requires that NWOs, as a condition for receiving capital grants, maintain a financial management system that separately accounts for NRC grant funds.

NRC's Oversight of NWOs

NRC's program review staff—headquartered in Kansas City, Missouri, but under the direction of NRC's Finance and Management Information Systems Division located in Washington, D.C.—conducts program reviews of the NWOs to examine their strengths and weaknesses. In fiscal year 1991, NRC conducted 107 program reviews. Program reviews are performed by NRC staff, but on occasion, NRC has hired consultants for this purpose.

NRC conducts three types of program reviews—comprehensive, operational readiness, and targeted. The comprehensive, or regular, program review covers all areas of operation, such as program administration, internal controls, effectiveness of the neighborhood partnership, and effectiveness of the program staff. NRC's goal is to perform a comprehensive program review at each NWO between 18 and 24 months. An operational readiness program review constitutes a first look

at a newly created program to determine whether it is ready to start up. According to an NRC official, a targeted program review, generally requested by an NRC field service officer or the NWO itself, covers one or a few specific aspects of a program, such as its accounting system. The targeted program review does not take the place of a comprehensive program review.

The comprehensive program review includes

- the reviewer's impressions of neighborhood conditions and NWO's neighborhood planning;
- an evaluation of the effectiveness of the NWO's efforts to meet its goals and to assist the neighborhood in becoming self-reliant;
- an assessment of the development of the NWO's corporate functions, communications/decision-making process, and capacity to meet the needs of the neighborhoods;
- an evaluation of the effectiveness of the tracking and record-keeping systems for organizational and financial management areas; and
- an assessment of the effectiveness of the NWO's services and activities, its marketing strategies, and residual service planning.

In addition to its program reviews and in accordance with section 607(e) of the Neighborhood Reinvestment Corporation Act, as amended, NRC requires that each recipient of its grant funds arrange for an annual financial audit by an independent certified public accountant. The purpose of this audit is to express an opinion on the fairness of the presentation of the NWOs' financial statements. This requirement is a standard condition of accepting an NRC grant and is part of all grant agreements. Among other things, these audits are to be submitted within 180 days of the end of the NWO's fiscal year, should segregate NRC grant funds from other funds, and should include management letters describing the results of any tests of NWO's internal controls.

NRC Contract Procedures for Goods and Professional Services

In the normal course of doing business, NRC contracts for both goods and professional services. Policies and procedures to be followed by NRC in contracting for these goods and services are contained in its administrative manual. The manual defines the forms to be used when requesting a contract, the internal approval process, and the acceptable method of contract award.

Objectives, Scope, and Methodology

The Chairwoman, Subcommittee on VA, HUD, and Independent Agencies, Senate Committee on Appropriations, asked us to review the effectiveness of NRC's (1) oversight of the local neighborhood organizations, (2) grant management practices, and (3) competition requirements for contracting for goods and services. The Chairman, Subcommittee on Housing and Community Development, House Committee on Banking, Finance, and Urban Affairs also requested such a review.

The review was conducted at NRC headquarters in Washington, D.C., and two of the nine NRC district offices—the Great Lakes District Office in Cincinnati, Ohio, and the North Central District Office in Kansas City, Kansas. NRC officials told us that these two districts are representative of the other districts. As of December 31, 1991, these two districts were responsible for overseeing 45 of the 174 total NWOS, or 26 percent. The Great Lakes District Office was overseeing 18 NWOS, and the North Central District Office, 27 NWOS. When we selected these districts, the Great Lakes District Office was chosen because it was responsible for the largest number of NWOS, but subsequently responsibility for NWOS in Illinois and Wisconsin was transferred from the Great Lakes Office to the North Central District Office. We chose the North Central District Office because it is located in the same city as the NRC Program Review Department, which we also visited during our review.

We had agreed with the requesters that we would not review the effectiveness of the NWOS in carrying out their goals and objectives because, at the time of our review, NRC had contracted with a consultant to assess the effectiveness of the NHS program.

In addressing NRC's oversight of NWOS, we first examined NRC's policies and procedures dealing with oversight. We then discussed the various methods of oversight with appropriate NRC headquarters officials. In addition to these discussions, we did the following:

- For program reviews, we examined various review reports, especially in those instances when the NWO later had critical financial or managerial problems, to determine whether the review had identified the problems.
- For annual financial audits of NWO operations, we checked whether the audits were performed and submitted to NRC as required, followed NRC requirements, and were used by NRC officials.

We reviewed an August 1990 consultant report on NRC's policies and procedures to oversee the management and operations of the NWOS so that

we could identify problems with the oversight mechanisms. For those areas in which we found similar problems during our review, we determined whether NRC had taken or plans to take corrective actions as a result the study.

In examining grant management—the second objective—we reviewed NRC's policies on awarding grants and compared them with NRC's practices to determine whether grants were let that did not meet NRC's policies. In cases where NWOS did not follow grant requirements, we identified what actions, if any, NRC took. We looked at changes that NRC has made, or is making, to the grant management system to determine whether the changes will correct weaknesses in the program.

To address the third objective, we reviewed NRC's policies for requiring competitive bidding for its goods and professional services contracts and examined any applicable internal audit reports. We then examined purchases of goods and services over \$2,000 for fiscal year 1991 to determine which were purchased on a competitive basis and which were purchased sole source. We compared this information with the stated policies to determine whether NRC was following its criteria. In instances of sole-source procurement contracts over \$2,000, we determined the reasons for the sole-source contract through discussions with headquarters officials; however, we did not verify the validity of these reasons. We did not review the qualifications of the companies making bids nor the adequacy of NRC's evaluation of the bids.

We performed our review between April 1991 and March 1992 in accordance with generally accepted government auditing standards. We discussed our findings with NRC's Executive Director and other senior officials and have included their comments where appropriate. However, as requested, we did not obtain written comments on this report.

Chapter 2 of this report addresses NRC's oversight and grant management objectives. Chapter 3 addresses the procurement objective.

NRC Oversight of the NWOs Is Inadequate

NRC, in its role of providing technical assistance and grant moneys has a significant stake in ensuring that the NWOs are operated as efficiently and effectively as possible. Effective oversight of the NWOs—through (1) periodic program reviews and (2) mandated annual financial audits—is a method of gaining such assurance. During our review of NRC oversight in fiscal year 1991, we found significant problems in the conduct and use of the reviews and audits, which seriously reduce NRC's ability to oversee the NWOs. The need for effective oversight is demonstrated by NRC's (1) analysis in January 1992 which showed that about one-third of the NWOs were either performing below NRC's expectations or had critical management or organizational deficiencies and (2) determination in 1991 that the amount of its capital grants funds awarded over the years to the NWOs currently available was less than anticipated.

NRC's Executive Director agreed with our review results and indicated that NRC is revising its program-review-monitoring process and implementing steps to improve the quality and use of financial audit reports submitted by the NWOs. According to NRC's implementation schedule given to us in June 1992, the revised tools and procedures for program reviews should be implemented by the fall 1992.

NRC's Own Analysis Indicates That Many NWOs Have Problems

In June 1991, a newly formed NRC Risk Analysis Committee met to measure the health of individual NWOs and the network as a whole and to ensure NWO compliance with NRC standards. The committee comprised representatives from various headquarters and district units. According to NRC, the committee would perform such risk analyses on a quarterly basis. For those NWOs that are rated as fair, marginal, or unsatisfactory, NRC could decide to develop a specific intervention policy to improve the situation at the NWO or establish special monitoring procedures.

The specific standards on which the NWOs were rated included planning (mission/operational planning/neighborhood development), resource development (resource development/fundraising), organizational oversight (corporate, board, committee, and partnership), management (staff/personnel/financial/contract compliance), production/program services (productivity/impact/quality), and technical operating systems (procedures/tracking/documentation). The committee requested that NRC's Program Review Department rate each NWO on the basis of the knowledge gained during its latest review. The committee also requested that the district office that oversees the NWO provide a rating. With this

information, the committee discussed the individual NWOs and came up with a corporate rating.

The various groups were asked to rate the NWOs from 1 to 5. Table 2.1 describes the ratings.

Table 2.1: NRC Risk Analysis Ratings and Definitions

Rating	Definition	Meets standards
1	Exemplary	Yes.
2	Average or above	Yes.
3	Fair	Flawed performance in meeting standards, corrective action needed.
4	Marginal	Below expectations in meeting standards, might threaten NWO's viability if left uncorrected.
5	Unsatisfactory	Well below expectations in meeting standards. Critical deficiencies; if not immediately corrected, will threaten NWO's viability.

Source: NRC.

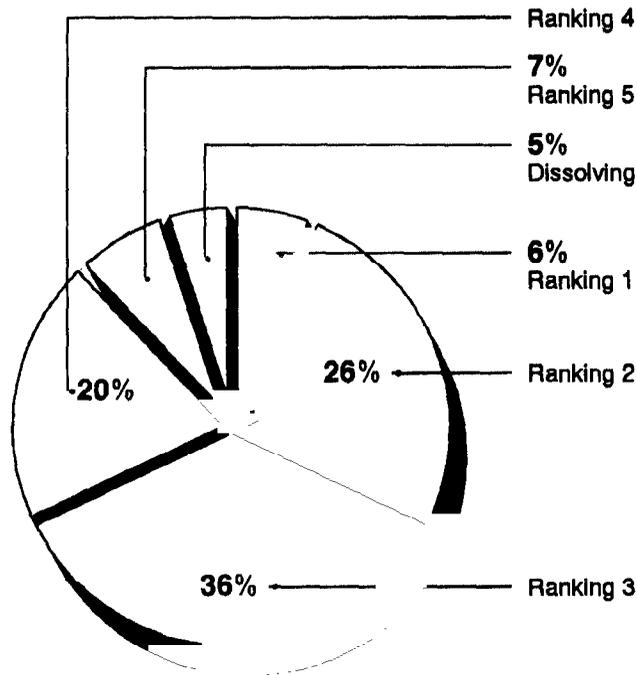
Because they perceived that an NWO's executive director is a key to the NWO's strength or weakness, the committee automatically gave an NWO a rating of 4 if the position of executive director was vacant or very recently filled. In reviewing the results of the analysis, we noted that 4 percent of the NWOs were automatically given a rating of 4 for this reason. The results of the June 1991 risk analysis indicated that 33 percent of the 156 NWOs rated were a 4 or 5, and an additional 31 percent were given a rating of 3.¹ Thus, 64 percent of the NWOs were judged to need some type of corrective action to meet the established standards.

The results of the risk analysis done in January 1992 show that a significant number of NWOs continued to be given ratings of 4 or 5. As shown in figure 2.1, the risk analysis ratings for January 1992 were very similar to the results obtained in the June 1991 analysis—68 percent of the 163 NWOs rated were given a rating of 3 or below.²

¹According to NRC, NWOs with less than 6 months operating experience were not rated.

²NRC added a new category in the January 1992 ratings for NWOs in the process of dissolving.

Figure 2.1: Results of Risk Analyses Performed by NRC in January 1992



Source: GAO analysis of NRC data.

Effective NRC Oversight of NWOs Is Needed

The fact that many NWOs were found to be below NRC's expectations demonstrates the need for an effective oversight program. Such oversight can help ensure that problems in NWO performance are quickly identified. According to NRC, two major vehicles to oversee the NWOs are periodic program reviews and annual financial audits of the NWOs by an independent audit firm. In addition, during 1991 NRC began requiring the NWOs to submit a quarterly report that includes programmatic and financial data. NRC officials told us that district staff, in providing the NWOs with technical assistance, also provide ongoing monitoring of NWOs.

Because of concern about the adequacy of (1) its oversight system; (2) NWOs' financial management; and (3) its financial management guidelines, NRC commissioned a consultant (Grant Thornton) to examine its policies and procedures to oversee the management and operations of NWOs. The firm issued its report in August 1990.³ In summary, it stated that NRC had

³Neighborhood Reinvestment Corporation: Study of Financial Monitoring and Oversight of NeighborWorks Network, Grant Thornton, Aug. 29, 1990.

historically focused on development efforts and technical assistance for the NWOs and that financial monitoring and oversight had been minimal. It pointed out that there was an increased need for NRC to focus on financial monitoring and oversight because of (1) the growth in the number of NWOs, (2) the increasing complexity of NWO operations, and (3) damage to the program caused by well-publicized NWO failures. The report included recommendations and an implementation plan to strengthen NWO financial management and develop NRC's financial monitoring and oversight program. Since the report was issued, NRC has examined areas where improvement can be made. In some cases, changes have been made or are being considered.

Significant Problems With NRC's Program Reviews

Program reviews—to be performed at each NWO at least once every 2 years—are an important tool NRC uses to determine an NWO's strengths and weaknesses. NRC procedures require that after the review is completed, a written report indicating the results of the review is submitted to NRC and the NWO. Our review of NRC's program review process through fiscal year 1991 indicated that it had significant problems. Specifically, we found that the training for the program review staff is unstructured and erratic; the reviews are not timely; the reviews are not planned, conducted, and used in a way that would make them most useful to NRC in overseeing the NWOs; and NRC did not require the NWOs to take corrective actions on the basis of results of the reviews. As a result, NRC did not have adequate information to determine an NWO's strengths and weaknesses, nor did it ensure that problems found at an NWO were corrected.

In March 1992, NRC's Executive Director agreed with our observations and told us that NRC was developing changes to its program review process, which it should fully implement by the end of fiscal year 1992. If properly implemented, these changes should address many of the problems discussed in this chapter.

Program Review Staff Training Is Unstructured

In performing a program review, the reviewer is required to examine an NWO's program, resource, and financial management systems. This includes assessing the NWO's internal controls and determining its effectiveness in administering the program. However, NRC does not require financial management training or experience when hiring its program review staff. According to the 1990 Grant Thornton study, the review staff lacked the necessary skills to adequately review NWO's financial management systems. Our review supported that conclusion.

According to NRC, staff are hired for diagnostic skills in a wide set of issues such as loan processing, community organizing, construction methods and procedures, financial management, organizational development, fundraising, and leadership development. In March 1992, the present review staff had varying amounts of financial management experience—staff ran the gamut from a former accountant to former executive directors.

According to the Associate Director of NRC's Program Review Department, NRC's training of the program review staff is unstructured. Staff members are encouraged to pursue training opportunities on their own. They are not required to take any specific training courses as a condition for continued activity as program reviewers. The department provides on-the-job, external, and internal training opportunities, including orientation for new employees and workshops provided by NRC. NRC also makes various manuals available to the staff members, such as a Financial Management and Accounting Guide.

Because training for program reviewers is not managed, it is somewhat erratic. The Associate Director said that the department does not keep track of the courses its staff takes, but, at our request, she obtained such information from individual personnel records. The information indicates that between 1987 and 1991, very few financial management courses were taken. Specifically:

- There were seven program review staff meetings, which ranged from 3 to 5 days and included subjects such as real estate project management, computer courses, fund-raising, and operational readiness. Only one staff meeting included financial management as a subject.
- NRC records indicate that from January 1989 through November 1991, four NRC staff members took courses on financial management from NRC's Training Institute (primarily established to train NWO staff and management).
- Two staff members took courses on "financial feasibility." The information supplied us does not state the length of the course.

In January 1992, the Associate Director told us that two districts were preparing to offer some training in financial management over the next few months. She added that in June or July 1992, the program review management staff will assess its training and identify training needs. She said that after the assessment, the department would provide a training curriculum for areas in which there is a need for particular training. At the

time, NRC had not developed the specifics concerning how the assessment would be made. In March 1992, NRC's Executive Director told us that the assessment is still planned for June or July.

NRC Does Not Provide Specific Guides on How to Conduct a Review Nor Require Adequate Documentation of the Work Done

Our review found that during fiscal year 1991, NRC did not provide specific guides to program reviewers for the reviews' scope and methodology, nor did it require the reviewers to provide adequate documentation of the work forming the basis of their judgments. Detailed guides on the review's scope and methodology help ensure that the reviewers and the occasional consultants who perform program reviews use consistent standards throughout the country and over time. Adequate documentation is necessary to help the users understand the basis for any findings in the program review report and to provide a record of what was done to correct identified problems over a period of time.

The absence of adequate guides and documentation does not allow NRC management to determine the reliability of the program reviews or the consistency of the review work done at different NWOs. As a result, the usefulness of the review results as an oversight mechanism is lessened.

Our examination of the guides for conducting program reviews and the form used to document the reviews indicates that the program review staff do not have clear instructions on what information to collect, how to collect it, and how to analyze it. For example, the program review guidelines require the reviewer to rate the effectiveness of an NWO's loan committee and its management of internal control systems, but they do not provide guides on how the reviewer should determine effectiveness. In addition, the reviewer must also examine loan and rehabilitation files, monthly financial management reports, and reports dealing with delinquent loans. But the guides provided do not indicate to what extent the files and reports are to be examined.

Documentation on file in the Program Review Department to identify the work done by the reviewer and used to support the written report consists of filled-in program review observation forms—a checklist for each of the areas covered in the review. The documentation does not provide for an identification of the scope and methodology the reviewer used to determine the responses included in the review form or to verify the work done. For example, one of the observation forms indicates whether the reviewer rated an NWO's loan committee and its internal control systems excellent, good, average, fair, or poor, but does not indicate the basis for

the rating. In determining the adequacy of an NWO's financial management reports, the reviewer simply needs to identify if they are adequate or not without documenting the work done to make the determination.

The Department's Associate Director told us that NRC is aware of the deficiencies in this area and is revising its program review system. The revised system, known as PROMPT, contains standard review procedures and tools to assist reviewers in assessing NWOs in the six key performance dimensions identified by the acronym PROMPT—planning, resource development, organizational oversight, management, production and program services, and technical operating systems. The tools will provide an increased emphasis on evaluating NWOs' productivity, financial management, and contract compliance. The PROMPT system will require the reviewer to identify the methods used to make assessments of the NWO's adequacy of fulfilling the performance dimensions. For example, the reviewer will have to document whether the assessment was made on the basis of inquiry or observation or by a more detailed documentation method, such as examining records or files.

NRC's implementation schedule, as of June 1992, indicates that NRC is currently revising its proposed PROMPT system on the basis of the results of a test completed in May 1992. After such revisions are made, NRC will contract with an outside firm to evaluate the PROMPT tools and procedures and to design a comprehensive training program for the program review staff on the basis of its findings. NRC now expects to have the PROMPT system fully operational in October 1992. If properly implemented, this system should address the guidance and documentation problems discussed in this report.

One-Third of Program Reviews Are Late

In light of NRC's own analyses, which showed that many NWOs are marginal or have critical deficiencies, it is important that program reviews at an individual NWO are carried out in time frames that allow NRC to identify problems before they seriously affect an NWO's ability to perform its mission. The department's Associate Director told us that NRC's goal is to conduct a comprehensive program review of each NWO at least every 24 months. The Associate Director said that NRC management recognizes the importance of performing the program reviews on a timely basis and strives to meet the goal, but management is aware that the goal is often not accomplished because of the lack of staff.

Scheduling program reviews is a continuous process that typically begins 1 to 3 months before the fiscal year and is based on a long-range plan that takes into consideration NRC's overall and district priorities. According to the Department, scheduling program reviews is based on 17 factors including the date and results of the last review. Other factors include (1) the turnover of NWO's executive director or staff, (2) a request from the NWO, (3) NWO expansion, (4) legislative interest, and (5) dollar volume of activity. Before the year starts, schedules are reviewed and changed as needed.

The department could not tell us its rate of success in meeting the 24-month goal. At our request, it compiled data on program reviews performed in the Great Lakes and North Central Districts from 1987 to 1991. The data did not identify whether the program review performed was comprehensive, operational effectiveness, or targeted. For the purposes of our analysis, we considered all identified reviews as comprehensive—the type that is to be done within the 24-month time period. To the extent that the program reviews were not comprehensive, NRC would have performed additional reviews.

In analyzing the period between program reviews, we used, as the starting point in 1987, the month of each NWO's program review for that year. If the NWO did not have a program review in 1987, we used January 1987 as the starting point. As the ending point, we used the month of each NWO's 1991 program review. If an NWO had no 1991 program review, we used November 1991—the month that the data were prepared—as the ending point. We found that in 76 percent of the cases, the time period between program reviews was 24 months or less. For the remaining 24 percent, the time period between reviews varied; in 9 percent of the cases the time period exceeded 36 months.

The PROMPT system currently being tested continues to recognize the 24-month goal, but NRC points out that extenuating circumstances will prevent it from always reaching this goal. These circumstances include factors such as the need for long-term scheduling and the subsequent need to coordinate dates, times, and logistics with NRC's district offices and the NWOs. NRC has considered but not implemented a system of scheduling program reviews that would require a shorter time period between reviews at an NWO with a higher-number risk analysis rating than at an NWO with a lower-number rating.

NRC Did Not Require NWOs to Correct Problems Identified

Even if program reviews are of high quality, accurate, and comprehensive, they have little effect unless actions are taken to correct any problems identified. As of the end of fiscal year 1991, NRC had no requirement that an NWO develop and implement actions to correct problems identified in a program review. Not requiring and ensuring that corrective actions are implemented has permitted the continuation of problems at certain NWOs. For example, the Pontiac, Michigan, NWO received four program reviews from 1982 to 1990 that identified the same concerns on at least two occasions, such as finding ways to reduce loan delinquencies, establishing program goals to assist the NWO in determining priorities, and improving participation of residents in the decision-making process. In fact, the program review done in 1990 pointed out that the NWO had not addressed concerns identified in previous program reviews.

According to NRC, rather than requiring NWOs to act, it had encouraged NWOs to correct weaknesses. However, in 1991, the Executive Director decided to press the NWOs to address serious programmatic and financial management deficiencies by instituting a policy that required the NWOs to make a substantial effort to comply with recommendations made in program reviews. According to NRC's Associate Director of the Program Review Department, to help ensure that this policy is followed, near the end of fiscal year 1991, NRC developed and began sending a form letter to the NWOs stating that corrective actions are needed and asking the NWO to identify the corrective actions it plans to take, the resources it will devote to each action, who will be responsible for implementing the plan, any resources or assistance needed to achieve the plan that are not available to the NWO, and the specific dates for completion. These actions, if properly implemented by the NWOs and enforced by NRC, should significantly improve NRC's ability to assess NWO's responsiveness to recommendations contained in program reviews conducted in fiscal year 1992 and beyond.

Financial Audit Reports Have Not Been an Effective Oversight Tool

As discussed in chapter 1, any recipient of NRC grant funds must provide an annual financial audit that accurately identifies NRC grant funds within 120 days after the close of each NWO's fiscal year—this was changed to 180 days, starting in 1991. Our review found that between 1988 and 1990, NWOs submitted late audit reports on 304 occasions and 52 percent of the NWOs' audit reports received between October 1, 1990, and September 30, 1991, did not accurately identify NRC grant funds. Also, NRC headquarters and district officials told us that they did not normally use the audits to oversee NWOs. In late 1991, NRC developed a system to make better use of

financial audit reports that will be in place for reviewing fiscal year 1992 financial audit reports.

NWOs Often Submitted Audit Reports Late or Submitted Reports That Did Not Separate NRC Grant Funds

In reviewing the audit reports' timeliness for 1988, 1989, and 1990, we found that many NWOs did not submit the audits on a timely basis, as shown in table 2.2. The data show that about 100 NWOs were late in submitting audit reports in each year, but the number of days late decreased each year. For example, in 1988, 36 of the 97 NWOs were over 6 months late in submitting their audit reports. However, in 1990, only 14 of the 103 late reports were over 180 days late.

Table 2.2: NWOs Submitting Audit Reports After the Required Date and the Number of Days Late, 1988-90

Number of days late ^a	Fiscal year			Total
	1988	1989	1990	
90 or less	36	40	61	137
91-180	25	43	28	96
181-270	7	12	9	28
271-360	7	5	5	17
over 360	22	4	0	26
Total	97	104	103	304

^a"Days late" means days after the end of the 120-day period for submission of audit reports.

Source: NRC data.

NRC identified a similar problem when, in 1991, for the first time, it performed a compliance review of financial audits submitted by NWOs. It found that about 88 percent of the NWOs did not file their audits within the required number of days after the end of their fiscal year.

NWOs typically receive grant funds from various sources in addition to NRC, such as local governments or federal agencies. According to an October 1991 report by a consultant, about 6 percent of the average NHS operating budget comes from NRC grant funds and 2 percent of its revolving funds come from NRC.⁴ So that it can use the audit to oversee actions taken with its grant funding, NRC requires that the audit report segregate its funds—i.e., separate grant funds received from NRC from funds received from other sources. However, in 1991 as part of its compliance review of audits, NRC found that 52 percent of the 1990 audit reports did not segregate NRC funding. In addition, we noted that in 1991, NRC had notified

⁴Evaluation of Neighborhood Housing Services: Final Report, Research Triangle Institute, Oct. 1991.

54 of 127 NWOs it reviewed, or 43 percent, that they had not segregated NRC grant funds in past audits.

In October 1991, on the basis of the results of its compliance review, NRC instituted a procedure that required copies of all financial audit reports to be sent to a program review auditor for a compliance review. After completing this compliance review, the auditor is to send audit compliance letters with supporting materials to the appropriate NRC district director. According to the policy, any NWO that does not meet the audit standard must take corrective action during the next audit period. Because this procedure had existed for only a brief time when we were performing our audit work, we could not determine its effectiveness. However, if properly implemented, it should adequately address our concerns.

NRC Has Not Used the Audits as an Oversight Tool

Annual audits should be used to oversee the NWOs by assessing whether they were in good financial condition or were following NRC grant requirements. However, NRC headquarters and district officials told us they did not routinely use the audits as an oversight tool. All three Deputy Directors of Field Operations told us that they did not usually look at the audit reports, but did examine them on occasion, such as when an NWO was having financial problems. The two district directors we interviewed did not believe it was their job to review the audits, and they did not use the audits to aid in overseeing the NWOs.

Similarly, one NRC headquarters official told us that the districts did not use the audit reports because district officials assumed that headquarters would review them. As previously stated, NRC has now assigned a staff member to determine whether audit reports are submitted on time and to review the audits to determine whether they conform to NRC requirements. In cases of noncompliance, the district offices will work with the NWO to ensure future compliance.

Oversight Problems Result in Ineffective Grant Management

Oversight problems have hampered NRC's ability to ensure that its grant funds are properly used and accounted for. Specifically, NRC has awarded grants to NWOs that did not comply with NRC's financial audit requirements, and it found during 1991 that some of its capital grant funds given in the past to NWOs were no longer available for NWOs' use.

NRC Awarded Grants to NWOs Not Meeting Audit Requirements

Through 1991, NRC continued to award grants to NWOs that had not submitted a financial audit for the previous year at the time of the grant or had not segregated NRC grant funds in the audit report. We found that, nationwide, 30 NWOs received 43 grants totaling about \$1.1 million, although their 1988 audits were late; 28 NWOs received 35 grants totaling about \$970,000, although their 1989 audits were late; and 8 NWOs whose 1990 audits were late received 13 grants totaling about \$976,000. For example:

- The Pontiac, Michigan, NWO was awarded two grants between 1988 and 1990, even though its May 1988 program review report noted that neither the financial audits nor management letters (which identify the results of the auditor's review of internal controls) had been submitted for review. According to an August 1990 report, management letters had not been issued for the last 4 years.
- The Chattanooga, Tennessee, NWO did not submit annual audits for the 5 years from 1985 to 1989. Although a senior field service officer informed NRC's Field Operations Division about the noncompliance, NRC gave the NWO a grant of about \$70,000. Part of this assistance was used to pay for the delinquent audits and for administrative expenses relating to the dissolution of the NWO. Subsequently, \$11,000 was returned to NRC.
- The Gainesville, Florida, NWO did not submit an audit for 1989 or 1990, but NRC issued a \$55,000 grant for the NWO to the City of Gainesville in the late spring of 1991. According to NRC, \$50,000 of this grant was issued to the city because the NWO had serious problems. Part of this grant money was to be used to pay for the delinquent audits.
- The Jersey City, New Jersey, NWO had not submitted an audit report for fiscal year 1990, when NRC provided more grant funds. According to NRC's internal auditor, in February 1991 NRC awarded two grants to the NWO totaling \$85,000.

We also found instances when NRC awarded grants to NWOs whose financial audits did not segregate NRC grant funds. For example, according to NRC, although the Newark, New Jersey, NWO's annual audits had not separated NRC capital funds from other funds, in 1990 NRC approved three grants totaling \$63,000 to the NWO.

Some Capital Grant Funds Are No Longer Available at NWOs

During fiscal year 1991, NRC began establishing new grant agreements with NWOs, called master grant agreements. Previously, NRC made grants to local NWOs under a variety of grant headings, such as housing acquisition, housing rehabilitation, second mortgages, and mixed-use properties. Each

was a separate grant with its own terms, resulting in multiple grants with overlapping terms and conditions. Since the grants were made for specific purposes, NRC found that when modifications were necessary, a formal and time-consuming grant amendment process had to be undertaken. NRC also found that it was not aggressively documenting NWOs' compliance with all the grant terms.

During fiscal year 1991, NRC began establishing new grant agreements with NWOs, called master grant agreements. In establishing these agreements, NRC reviewed all previous grants, some of which were as much as 20 years old, and determined which funds could be classified as capital and which funds had been for expendable purposes.

According to NRC, capital grants are to retain their value over time; therefore, the NWOs should be able to account for all capital grant moneys awarded them by NRC. For example, a capital grant given in the past to an NWO is usually put in its revolving loan fund and should either be in the fund or loaned out to a neighborhood resident for a mortgage or rehabilitation.

However, after performing its review, NRC determined that not all its capital grant funds awarded to NWOs are still available. As of December 1991, NRC had reviewed grant funds at 129 NWOs. The results of that review, shown in table 2.2, indicate that NRC capital grant funds of \$2 million, or 17 percent of the \$11.6 million in capital grant funds awarded, were no longer available.

Part of the unavailable funds resulted from NRC-approved transfers of capital grant funds to meet obligations of NWOs facing emergency financial situations. These authorized transfers amounted to about \$808,000. But, during this review, NRC found that some NWOs had (1) made such transfers without requesting the required approval from NRC and (2) not repaid this transfer to the revolving fund, as they agreed with NRC to do.⁵ NRC also found that some capital funds were no longer available because of losses due to uncollectible loans and unaccounted-for decreases in grant funds. Table 2.3 shows the number of NWOs and amounts involved.

⁵We found that not all NWOs were required to repay the transfer to the revolving fund. According to NRC officials, the application of this requirement was inconsistent. A general rule applied was whether NRC believed the NWO could repay the transfer.

Table 2.3: Reasons for Decreases in Available NRC Grants

Dollars in thousands		
Reason for decrease	Number of NWOs	Amount
Authorized transfers from capital fund without repayment requirement	21	\$526
Authorized transfers from capital fund with repayment required but not paid	11	282
Losses due to loan delinquencies	16	431
Unauthorized transfer from capital to operating expense	22	625
Grant funds not accounted for	9	150
Total	59*	\$2,014

*The number of NWOs does not add to the total because various NWOs have more than one reason for decrease in grant total.

Source: NRC Master Grant Agreement Files.

NRC made the downward adjustment to the dollar amounts of the grants at each NWO. In the future, NRC will increase its emphasis on using audit reports as an oversight tool to identify changes in available capital funds. NWOs, according to NRC, were put on notice that, in the future, NRC would perform more aggressive oversight of the NWOs' financial actions through program reviews and monitoring audit reports to ensure compliance with NRC grant policies and that to receive future grants, NWOs needed to be in compliance with NRC auditing and reporting standards.

Conclusions

NRC oversight of NWOs is important to provide accurate and timely programmatic and financial information on NWOs' operations to ensure that federal funds are spent properly and program goals are achieved. That oversight through fiscal year 1991 had significant problems that weakened its effectiveness. The lack of adequate oversight led NRC to award grants to NWOs that were not in compliance with its procedures and to be unaware that some of its capital grant moneys were no longer available at the NWO.

NRC is developing, testing, or implementing changes which it states will improve the oversight system—both its program reviews and its use of financial audits. Generally, we believe that if implemented properly, these changes should address the oversight problems discussed in this chapter. With respect to training, NRC plans to determine its training needs during the summer of 1992.

NRC Has Taken Steps to Increase Competition in Awarding Professional Service Contracts

In fiscal year 1991, NRC awarded contracts for about \$546,000 for goods costing over \$1,000 and contracts for professional services amounting to about \$989,000. NRC requires that goods costing over \$1,000 be procured competitively, but it had no similar requirement for the procurement of professional services until January 1991, when it began requiring that all such contracts over \$10,000 be awarded competitively.¹ Although NRC recognizes the sensitivity surrounding the awarding of sole-source contracts to former employees, NRC contracting policies included in its administrative manual do not specify the need for additional justification for such contracts. Between January 1991 and the end of fiscal year 1991, NRC awarded, on a sole-source basis, 7 of 16 professional service contracts over \$10,000. During fiscal year 1991, NRC awarded nine contracts to former employees, estimated to cost about \$109,000.

If NRC had set the threshold for competitive bidding on professional contracts at a lower level, more contracts would have been competitively bid. For fiscal year 1991, professional service contracts for more than \$10,000 constituted 18 percent of the contracts awarded but 72 percent of all service contracts' dollar amount. If NRC's threshold for written bids for professional service contracts was the same as for goods—\$2,000—the figures would have been 48 percent of the professional service contracts and 96 percent of the total dollars.

NRC's Executive Director agreed that during the time period covered by our review, there was a need to increase the competition in procurement of services. He said that significant progress has been made since then and that more will be made.

NRC Is Not a Federal Agency and Does Not Follow Federal Acquisition Regulations

As previously stated, NRC receives about 94 percent of its income through federal appropriations. However, the Neighborhood Reinvestment Act stated that NRC is not a federal agency. Therefore, NRC does not follow the Federal Acquisition Regulations, which generally apply to federal executive agencies. Competition in procurement ensures (1) higher quality goods and services at lower prices, (2) more efficient use of taxpayers' dollars, (3) the introduction of new and innovative products to the government, and (4) the opportunity for a larger number of interested suppliers to sell to the government.

¹For contracts for goods costing over \$1,000 but less than \$2,000, NRC can obtain oral bids. For contracts over \$2,000, NRC requires written bids.

However, NRC did develop some procurement regulations for both goods and professional services, which are contained in its administrative manual. NRC requires its officials to secure bids for goods (or nonprofessional services costing over \$1,000, such as computer maintenance) purchased through its purchase order system. For goods costing over \$1,000, NRC requires that three oral or written bids be obtained. For goods costing over \$2,000, NRC requires that three written bids be obtained. NRC does not require competition when goods, regardless of cost, are purchased under a General Services Administration schedule. These purchases are from vendors who have entered into contracts with the Administration to offer goods at certain prices, generally to government entities.

Until January 1991, NRC did not require competitive procurement of professional services, regardless of the dollar amount. Consequently, NRC frequently procured professional services on a sole-source basis. In January 1991, NRC instituted a policy requiring that large service contracts (those for \$10,000 or more) be awarded competitively.

On the other hand, the section of the Federal Acquisition Regulations dealing with small purchases (purchases under \$25,000) states that any purchase under \$2,500 may be made without securing competitive quotations if the contracting officer considers the price to be reasonable. For purchases over \$2,500, contracting officers shall solicit quotations from a reasonable number of sources to promote competition to the maximum extent practicable and ensure that the purchase is advantageous to the government. According to the regulations, generally, solicitation of at least three sources may be considered to promote competition to the maximum extent practicable.

NRC Usually Used Competitive Procedures to Procure Goods

As shown in table 3.1, during fiscal year 1991, NRC entered into 62 contracts for goods costing over \$2,000 and obtained bids for all but 6 contracts. These six contracts represented about 10 percent of the 1991 contracts for goods costing over \$2,000 and 8 percent of the dollar amount of such contracts.

**Chapter 3
NRC Has Taken Steps to Increase
Competition in Awarding Professional
Service Contracts**

**Table 3.1: Method of Contract Award
for Goods Costing Over \$2,000, Fiscal
Year 1991**

Contract award	Number of contracts	Percent of contracts	Amount
Competitive	39	63	\$178,379
GSA purchase	17	27	97,231
Sole-source	6	10	23,909
Total	62	100	\$299,519

Source: NRC contract data.

The files for these six sole-source contracts did not contain NRC's rationale for not requesting bids. However, NRC officials provided us the following explanations:²

- The procurement of 175 copies of a video on drug free zones for about \$6,700 was made on a sole-source basis because it was of critical interest to the NWOs and the video was not available from other firms.
- The procurement of computer maintenance and enhancement services costing about \$3,200 was made on a sole-source basis because the firm was uniquely qualified to provide the services. This firm had written software for operating the computer.
- The procurement of computer tape storage services costing about \$2,700 was made sole source because of the low cost. (However, the cost exceeded the \$2,000 threshold for written bids.)
- The procurement of a mailing list for approximately \$2,100 was made on a sole-source basis because no other firm could provide a similar list. The list contained names and addresses of a "specialized" group of nonprofit and nongovernmental organization directors, many involved in housing policy.

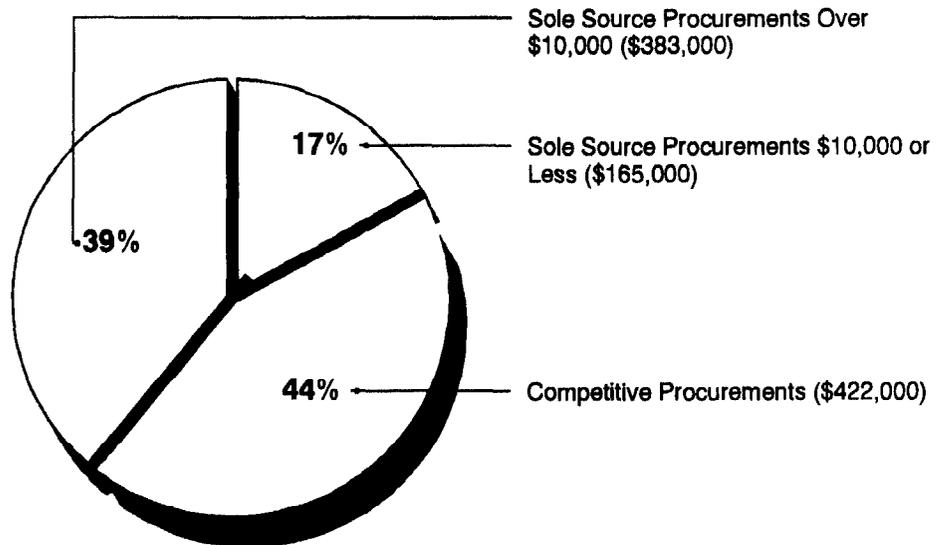
In addition, to conduct two conferences, according to an NRC official, NRC made two noncompetitive procurements from hotels. NRC's administrative manual states that the conference's location should be chosen on a cost-effective basis in terms of total travel and time expenditures for those planning to attend. An NRC official explained that once the conference's location is chosen, the hotel selected must meet the needs of the conference, such as the availability of large meeting rooms and small breakout rooms. In these two cases, NRC said it had chosen the hotels, which provided such services at a reasonable cost.

²We did not determine the validity of these explanations.

NRC Has Increased Competition in Procurement of Professional Services

In fiscal year 1991, NRC awarded 159 contracts for professional services amounting to about \$989,000. Before the January 1991 requirement for awarding professional service contracts over \$10,000 competitively, NRC awarded 5 of 12 such contracts, or 42 percent, on a competitive basis. In the last 9 months of fiscal year 1991, NRC awarded competitively 9 out of 16 such contracts, or 56 percent. In addition, one contract was awarded to a city representing payment for various developmental expenses incurred by the city. As shown in figure 3.1, contracts totaling about \$422,000 were awarded competitively.³

Figure 3.1: Cost of Professional Services Procured Sole Source and Competitively, Fiscal Year 1991



Note: Figures are based on procurements that NRC was able to identify as competitive or non-competitive; contracts totaling \$19,000 could not be identified.

Source: GAO analysis of NRC data.

NRC's administrative manual lists various general reasons that can be used to justify awarding such contracts on a sole-source basis. Reasons included are that competitive bidding is not feasible, the contractor is the only provider of the particular service, the contractor is uniquely qualified

³Contract costs are based on NRC estimates. Expenditures resulting from these contracts may be lower or higher than the estimates.

to perform the service, and the contractor's services are cost effective. NRC officials added that they frequently use sole-source contracting because this contracting method takes less time and helps ensure that unique services of high quality are obtained from sources that they have confidence in. The following are NRC's rationales for awarding sole source the seven large contracts costing about \$260,000:

- A firm was awarded a contract to act as the interim manager of an NWO because (1) there was an urgent need to address financial and other problems and (2) the contractor was familiar with financial and liability matters.
- A law firm was selected to represent NRC in a lawsuit on the basis of its experience in employment litigation.
- A consultant on loan management was selected because it had relevant experience in assisting NWOs in making loans.
- A contractor was selected to provide training in housing management and loan management because of a "unique blend of skills."
- An executive recruiter was selected because it offered about the same price as another executive recruiter previously hired.
- A research consultant was selected after several other firms declined to respond to NRC's request for proposals.
- An accounting firm was selected after the NRC Board directed NRC to continue with the same firm that had provided annual audits in the past.

In June 1992, the Executive Director told us that NRC had developed a draft policy that would increase the amount of competition for professional services. NRC anticipates that this draft policy will be finalized by July 1992. He added that had this policy been in effect during 1991, five of the seven professional service contracts discussed above would have been awarded competitively.

Basically, the draft policy will require NRC officers and district directors to seek out a pool of qualified consultants and contractors for professional services, generally through advertising in newspapers and trade journals. Once the consultant or contractor's references are checked, fees will be negotiated with the selected applicants. As negotiations are finalized, one or more contracts will be put through NRC's normal concurrence process. At this time, it is unclear to what extent this policy would increase competition. On the other hand, NRC could have an immediate impact on increasing competition, by lowering the current \$10,000 threshold. NRC's Director for Personnel, Administration, and Training told us that there was

no specific rationale for choosing \$10,000 and that they would have no objection to lowering the threshold.

In fiscal year 1991, NRC awarded 29 large contracts (more than \$10,000 each) amounting to about \$717,000 for professional services. This represents 72 percent of the total dollar amount awarded for professional services, but only 18 percent of the number of contracts. To gain some perspective on the number and dollar amount of service contracts costing various amounts, we analyzed NRC data for 1991. Table 3.2 shows the number of contracts and the percentage of the total dollar amount that would have to be awarded competitively at three alternative thresholds. The three alternatives are

- \$2,000, NRC's threshold for requiring competition for procurement of goods;
- \$2,500, the threshold for federal agencies to obtain competitive bidding on a contract as stated in the Federal Acquisition Regulations; and
- \$5,000, the midpoint between the current \$10,000 threshold and a requirement to award all contracts on a competitive basis.

Table 3.2: Impact of Alternative Thresholds on Professional Services Contracts, Fiscal Year 1991

Threshold	Contracts		Dollars	
	Number	Percentage	Number	Percentage
Every contract	159	100	\$989,375	100
\$2,000	76	48	949,232	96
\$2,500	72	45	939,732	95
\$5,000	45	28	836,053	85
\$10,000	29	18	717,198	72

Source: NRC contract data.

NRC Plans to Strengthen Controls Over Awarding of Professional Service Contracts to Former Employees

In fiscal year 1991, NRC awarded nine contracts to former employees at an estimated cost of about \$109,000. Of these nine contracts, six were awarded on a sole-source basis at a cost of about \$70,000. Noncompetitive procurements with former employees are particularly sensitive because of the possible appearance that competition was not open and that NRC did not obtain the greatest value for its purchase. In examining NRC contract policies contained in its administrative manual, we found no additional controls for dealing with the awarding of professional services contracts to former NRC employees.

However, we found that the Executive Director recognized the sensitive nature of awarding noncompetitive contracts to former employees in a December 1990 memorandum to NRC managers. He stated the managers must include considerable justification in requests for such contracts. He noted that (1) NRC must operate under a high standard of justification in order to avoid the suspicion of favoritism and (2) the standard should be even higher if the contract involves a fairly common service and includes travel. Three contracts were awarded to former employees in the 3 months preceding this memorandum, and all three were awarded on a sole-source basis. In contrast, for the 9 months following the issuance of this memorandum, six contracts were awarded to former employees—three on a sole-source basis.

In March 1992, the Executive Director told us that he approves any contract for services provided by former employees, but he agreed that this approval process is not part of the policy contained in the manual. He said that a requirement that he approve any contract with a former employee will be codified in the administrative manual.

Conclusions

NRC requires competition for procurements of goods over \$1,000 and for procurements of professional services over \$10,000. These requirements represent a recognition that competition generally results in better procurement. NRC has developed a draft policy that it stated would increase the amount of competition in awarding professional service contracts. An immediate way of increasing competition would be to decrease the threshold for competitive awards of professional service contracts. Awarding sole-source contracts to former employees without an additional formal requirement to more closely scrutinize the justification does not represent adequate controls.

Recommendations

We recommend that NRC's Executive Director assess whether the process to increase competitive bidding is effective, and, if found lacking, evaluate lowering the threshold for competitive bidding. The Executive Director should also ensure that NRC's administrative manual is revised to specifically require that the Executive Director approve all sole-source contracts awarded to former employees.

The National NeighborWorks Network as of October 1, 1991

City	Organization
Aberdeen, Wash.	Aberdeen Neighborhood Housing Services (NHS), Inc.
Albuquerque, N.M.	NHS of Albuquerque, Inc.
Allentown, Pa.	Allentown NHS, Inc.
Anchorage, Alaska	Anchorage NHS, Inc. Anchorage Mutual Housing Association (MHA), Inc.
Ashville, N.C.	NHS of Ashville, N.C., Inc.
Atlanta, Ga.	Atlanta NHS, Inc.
Aurora, Ill.	NHS of Aurora, Inc.
Austin, Tex.	Central Texas MHA, Inc.
Avondale, Ariz.	Avondale NHS, Inc.
Baltimore, Md.	MHA of Baltimore, Inc. NHS of Baltimore, Inc.
Banning, Calif.	Banning Partners for a Revitalized Community
Barberton, Ohio	NCS of Barberton, Inc.
Barre, Vt.	Barre NHS, Inc.
Battle Creek, Mich.	NHS of Battle Creek, Inc.
Beloit, Wis.	NHS of Beloit, Inc.
Birmingham, Ala.	Birmingham NHS
Boise, Idaho	Boise NHS, Inc.
Boston, Mass.	Boston NHS, Inc.
Bridgeport, Conn.	Bridgeport Neighborhood Housing and Community Services, Inc.
Buffalo, N.Y.	Black Rock-Riverside NHS, Inc. Broadway-Filmore NHS, Inc. Buffalo NHS, Inc. Kensington-Bailey NHS, Inc. NHS of South Buffalo, Inc. West Side NHS, Inc.
Burton, Mich.	Burton NHS, Inc.
Cambridge, Mass.	Cambridge Neighborhood Apartment Housing Services, Inc.
Camden, N.J.	NHS of Camden, Inc.
Carolina, P.R.	Servico de Viviendas Vecinales de Carolina, Inc.
Casper, Wyo.	Casper NHS, Inc.
Cattaraugus County, N.Y.	Rural Revitalization Corp. (Salamanca)
Charleston, S.C.	Charleston NHS of South Carolina, Inc.
Charlotte, N.C.	NHS of Charlotte, Inc.
Chattanooga, Tenn.	Chattanooga Neighborhood Enterprise

(continued)

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The National NeighborWorks Network as of
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City	Organization
Chelsea, Mass.	Chelsea NHS, Inc.
Chicago, Ill.	NHS of Chicago, Inc.
Cincinnati, Ohio	NHS of Cincinnati, Inc.
Clearwater, Fla.	Clearwater NHS, Inc.
Cleveland, Ohio	NHS of Cleveland, Inc.
Cleveland Heights, Ohio	Cleveland Heights Apartment Renovation Rebate Program
Colorado Springs, Colo.	Colorado Springs NHS, Inc.
Columbus, Ohio	Columbus NHS, Inc.
Corvallis, Oreg.	NHS of Corvallis, Inc.
Cumberland, Md.	Cumberland NHS, Inc.
Dallas, Tex.	NHS of Dallas, Inc.
Davenport, Iowa	NHS of Davenport, Iowa, Inc.
Denver, Colo.	NHS of Denver, Inc.
	Colorado Rural Housing Development Corp.
Des Moines, Iowa	NHS of Des Moines, Inc.
Detroit, Mich.	Detroit NHS, Inc.
Dimmit County, Tex.	NHS of Dimmit County, Inc.
Duluth, Minn.	NHS of Duluth, Inc.
Durham, N.C.	The Durham NHS of North Carolina, Inc.
East Providence, R.I.	East Providence NHS, Inc.
Elgin, Ill.	NHS of Elgin, Inc.
Fort Lauderdale, Fla.	Fort Lauderdale NHS, Inc.
Fort Pierce, Fla.	Fort Pierce NHS, Inc.
Fort Wayne, Ind.	Project Renew
Fort Worth, Tex.	NHS of Fort Worth, Inc.
Gainesville, Fla.	NHS of Gainesville/Alachua County, Inc.
Great Falls, Mont.	NHS, Inc., of Great Falls
Green Bay, Wis.	NHS of Green Bay, Inc.
Hartford, Conn.	Hartford NHS, Inc.
	MHA of Greater Hartford, Inc.
Honolulu, Hawaii	Honolulu NHS, Inc.
Houston, Tex.	Houston NHS, Inc.
Hudson, N.Y.	Hudson Housing Services Corp.
Inglewood, Calif.	Inglewood NHS, Inc.
Ithaca, N.Y.	Ithaca NHS, Inc.
	MHA of Tompkins County, Inc.
Jackson, Miss.	NHS of Jackson, Inc.
Jacksonville, Fla.	Springfield NHS of Jacksonville, Inc.
Jersey City, N.J.	NHS of Jersey City, Inc.

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The National NeighborWorks Network as of
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City	Organization
Kalamazoo, Mich.	Kalamazoo NHS, Inc.
Kankakee, Ill.	Kankakee NHS, Inc.
Kansas City, Kans.	Kansas City, Kansas, NHS, Inc.
Kansas City, Mo.	NHS of Kansas City, Inc.
Kenosha, Wis.	NHS of Kenosha, Inc.
	Uptown Business
Knoxville, Tenn.	Knoxville NHCS, Inc.
Lafayette, Ind.	Lafayette NHS, Inc.
Lafayette, La.	NHS of Lafayette, Louisiana, Inc.
LaHabra, Calif.	LaHabra NHS, Inc.
Las Cruces, N.M.	Tierra Del Sol Housing Corp.
Lawrence, Mass.	Lawrence NHS, Inc.
Lincoln, Nebr.	NHS of Lincoln, Inc.
Los Angeles, Calif.	NHS of Los Angeles, Inc.
Louisville, Ky.	NHS of Louisville, Inc.
Mabton, Wash.	Mabton NHS, Inc.
Madison, Wis.	Madison MHA & Cooperative
Menlo Park, Calif.	NHS of Menlo Park, Inc.
Miami, Fla.	Miami-Dade NHS, Inc.
Midland, Tex.	Midland NHS, Inc.
Milwaukee, Wis.	NHS of Milwaukee, Inc.
Minneapolis, Minn.	Northside NHS, Inc.
	Southside NHS, Inc.
Mission, S.D.	Rosebud Reservation Enterprise Center
Montclair, Calif.	NP of Montclair, Inc.
Mount Vernon, N.Y.	Mount Vernon Apartment Improvement Program (AIP), Inc.
Nanakuli, Hawaii	Nanakuli NHS, Inc.
Newark, N.J.	NHS of Newark, Inc.
	Newark AIP, Inc.
New Britain, Conn.	NHS of New Britain, Inc.
New Haven, Conn.	NHS of New Haven, Inc.
New Orleans, La.	NHS of New Orleans, Inc.
New York, N.Y.	Jamaica Housing Improvement Inc.
	Lower East Side MHA, Inc.
	NHS of New York City, Inc.
	North Queens AIP
	NHS of Williamsbridge, Olinville, Wakefield, Inc.
	NHS of Jamaica, Inc.
	NHS of Bedford Stuyvesant, Inc.

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City	Organization
	NHS of East Flatbush, Inc.
	NHS of West Brighton, Inc.
Niagara Falls, N.Y.	Niagara Falls NHS, Inc.
Norwalk, Conn.	NHS of Norwalk, Inc.
Oakland, Calif.	Oakland NHS, Inc.
Oklahoma City, Okla.	NHS of Oklahoma City, Inc.
Omaha, Nebr.	NHS of Omaha, Inc.
Pasadena, Calif.	Pasadena NHS, Inc.
Peoria, Ill.	East Bluff NHS, Inc.
Philadelphia, Pa.	Philadelphia-West Philadelphia Neighborhood Enterprise Center, Inc.
Phoenix, Ariz.	NHS of Phoenix, Inc.
Pittsburgh, Pa.	Neighborhood Housing Services, Inc.
Pontiac, Mich.	Pontiac NHS, Inc.
Providence, R.I.	Elmwood NHS, Inc.
Pueblo, Colo.	NHS of Pueblo, Inc.
Quincy, Mass.	Quincy NHS, Inc.
Randolph, Vt.	Randolph NHS, Inc.
Reading, Pa.	NHS of Reading, Inc.
Richland Center, Wis.	NHS of Richland County, Inc.
Richmond, Calif.	Richmond NHS, Inc.
Richmond, Va.	Richmond NHS, Inc.
Rochester, N.Y.	NHS of Rochester, Inc.
Sacramento, Calif.	Sacramento MHA, Inc.
	Sacramento NHS, Inc.
Saginaw, Mich.	Neighborhood Renewal Services of Saginaw, Inc.
St. Joseph, Mo.	St. Joseph NHS, Inc.
St. Louis, Mo.	NHS of St. Louis, Inc.
St. Paul, Minn.	Dayton Bluff NHS, Inc.
	Twin Cities NHS, Inc.
	Westside NHS, Inc.
St. Petersburg, Fla.	St. Petersburg NHS, Inc.
Salt Lake City, Utah	Salt Lake NHS, Inc.
San Antonio, Tex.	NHS of San Antonio, Inc.
	Texas Mutual Reinvestment Corp.
San Bernardino, Calif.	San Bernardino NHS, Inc.
San Diego, Calif.	San Diego NHS, Inc.
Santa Ana, Calif.	Santa Ana NHS, Inc.
Santa Fe, N.M.	NHS of Santa Fe, Inc.

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City	Organization
Savannah, Ga.	NHS of Savannah, Georgia, Inc.
Scranton, Pa.	Scranton NHS, Inc.
Shreveport, La.	NHS of Shreveport, Inc.
South Bend, Ind.	NHS of South Bend, Inc.
Springfield, Mass.	Springfield NHS, Inc.
Stamford, Conn.	MHA of Southwestern Connecticut, Inc.
	NHS of Stamford, Inc.
Syracuse, N.Y.	Syracuse NHS, Inc.
	Syracuse Model Neighborhood Corp.
Tampa, Fla.	NHS of Tampa, Inc.
Toledo, Ohio	NHS of Toledo, Inc.
Trenton, N.J.	NHS of Trenton, Inc.
Tulsa, Okla.	NHS of Tulsa, Inc.
Utica, N.Y.	Utica NHS, Inc.
Vallejo, Calif.	Vallejo NHS, Inc.
Washington, D.C.	NHS, Inc., of the National Capital Area
	Washington, D.C., AIP, Inc.
Waterbury, Conn.	NHS of Waterbury, Inc.
West Palm Beach, Fla.	NHS of West Palm Beach, Inc.
West Rutland, Vt.	Rutland West NHS, Inc.
Yonkers, N.Y.	Yonkers AIP, Inc.

Source: NRC.

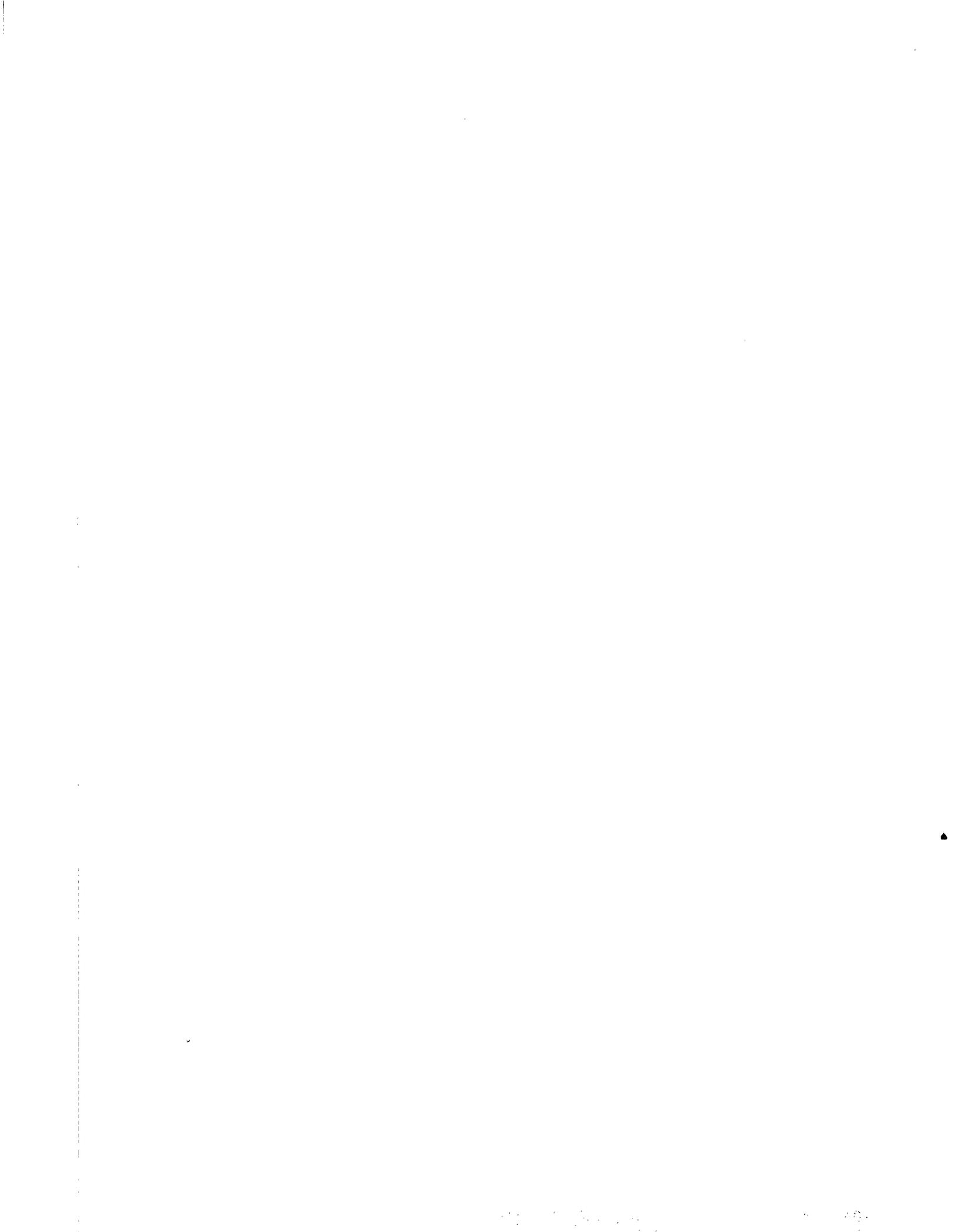
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