



# Audit Report



OIG-21-007

## FINANCIAL MANAGEMENT

**Management Letter for the Audit of the Community Development Financial Institutions Fund's Financial Statements for Fiscal Years 2020 and 2019**

November 13, 2020

Office of Inspector General  
Department of the Treasury

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OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

November 13, 2020

**MEMORANDUM FOR JODIE HARRIS, DIRECTOR  
COMMUNITY DEVELOPMENT FINANCIAL  
INSTITUTIONS FUND**

**FROM:** James Hodge /s/  
Director, Financial Audit

**SUBJECT:** Management Letter for the Audit of the Community  
Development Financial Institutions Fund's Financial  
Statements for Fiscal Years 2020 and 2019

We hereby transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Community Development Financial Institutions (CDFI) Fund as of September 30, 2020 and 2019, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated November 13, 2020, that discusses a matter involving a deficiency in internal control over financial reporting that was identified during the audit. The matter involves control activities related to the review of the year-end financial statements and on-top adjustments.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Catherine Yi, Manager, Financial Audit, at (202) 927-5591.

Attachment



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

November 13, 2020

Deputy Inspector General  
U.S. Department of the Treasury

Director  
Community Development Financial Institutions Fund

In planning and performing our audit of the financial statements of the Community Development Financial Institutions Fund (CDFI Fund) as of September 30, 2020, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we considered the CDFI Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDFI Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDFI Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies, and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 13, 2020 on our consideration of the CDFI Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit, we identified the deficiency in internal control included in Appendix A.

The CDFI Fund's response to the finding identified in our audit is described in Appendix A. The CDFI Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

The purpose of this letter is solely to describe the deficiency in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

**Control activities related to financial reporting**

The CDFI Fund did not properly design controls related to the review of the year-end financial statements and the control over review of the on-top adjustments did not operate effectively.

The CDFI Fund did not communicate internally between legal counsel and financial management such that financial management was not aware of the reasonably possible legal contingency from a legal case. In addition, the CDFI Fund did not clearly define the objectives or criteria for reviewing and approving 1) the disclosures, and 2) the on-top adjustment to the financial statements.

The initial financial statements and disclosures:

1. Understated unexpended appropriations and overstated appropriations revenue (appropriations used) by \$5.3M as a result of an incorrect on-top adjustment.
2. Did not include a required disclosure related to a reasonably possible legal contingency.

The CDFI Fund subsequently corrected the on-top adjustment and included the disclosure.

**Recommendations**

We recommend that the CDFI Fund redesign its control activities related to the review of the financial statements to include:

1. Documentation of the rationale for each on-top adjustment to the financial statements (e.g., include reference to the underlying accounting standard and USSGL transaction) and criteria to validate that each nonrecurring (i.e., those that do not occur on an annual basis) on-top adjustment is needed; and
2. Completion of a disclosure checklist as of an interim period with criteria for coordination between legal counsel and financial management and secondary/supervisory review of the disclosure checklist.

**Management's response**

Management concurs with the finding and will implement a corrective action plan in 2021 to address these issues.



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