



Audit Report



OIG-13-011

Management Letter for the Audit of the Community
Development Financial Institutions Fund's Fiscal Years 2012 and
2011 Financial Statements

November 13, 2012

Office of
Inspector General
Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 13, 2012

**MEMORANDUM FOR DONNA J. GAMBRELL, DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL
INSTITUTIONS FUND**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the Community
Development Financial Institutions Fund's Fiscal Years 2012
and 2011 Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Community Development Financial Institutions Fund's (CDFI) Fiscal Years 2012 and 2011 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of the CDFI's financial statements as of September 30, 2012 and 2011, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG issued and is responsible for the accompanying management letter that discusses a matter involving internal control over financial reporting that was identified during the audit, but was not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits at (202) 927-5591.

Attachment



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

November 12, 2012

Inspector General
U.S. Department of Treasury
Washington, DC

Director, Community Development Financial Institutions Fund
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the CDFI Fund), as of and for the year ended September 30, 2012, 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered the CDFI Fund's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

During our audit we noted a certain matter involving internal control and operational matters that is presented for your consideration. This comment and recommendation, all of which have been discussed with the appropriate members of management, are intended to result in other operating efficiencies and are summarized in the attached Appendix A.

The CDFI Fund's written response to our comments and recommendations (also in Appendix A) has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the CDFI Fund's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss this comment and recommendation with you at any time.



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This communication is intended solely for the information and use of the addressees, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Tracking, Receipt and Review of Awardee Data

During our fiscal year 2012 financial audit of the Community Development Financial Institutions Fund (CDFI Fund) we tested aspects of the grant cycle for CDFI Fund's core programs not associated with the New Markets Tax Credit Program. Specifically, we conducted procedures over the tracking, receipt and review of awardees' key report submissions as stipulated in award agreements. As a result of our procedures, we identified the following instances of non-receipt/non-review of awardee reports that were due in fiscal year 2012:

Of the thirty-two items sampled, we identified:

- eight instances where Institution Level Reports (ILRs) had not been reviewed as of October 16, 2012, which was the date the financial statements were available for our review. The majority of these reports had been received by the CDFI Fund prior to August 31, 2012 and were thus capable of being reviewed coincident with the stipulated timeframe. Of these instances, three were marked as compliant but the completed documentation was not returned to the file as of October 16, 2012.
- five instances where the CDFI Fund was incapable of performing its assessments and reviews as the awardees were non-compliant with their annual contractual reporting (i.e. ILRs) as of September 30, 2012. For these instances, we determined that the CDFI Fund had sent e-mails to notify awardee of overdue reports and formalize their non-compliant status.

Of the thirty-two selections tested, we note that there were no "desk reviews" or site visits completed in fiscal year 2012. For one of our samples, a site visit was scheduled for September 25, 2012 but was delayed until October 9, 2012.

While the New Markets Tax Credit Program has an automated and integrated awardee-level analytics, the comparable automated and integrated awardee-level analytics capability for the core CDFI program awards/awardees is not yet operational. Currently, there is a reliance on part manual part automated processes that are dependent on a combination of both structured and semi-structured data, which could further be caused by staffing constraints and budgetary factors beyond the control of program management.

The CDFI Fund is not consistently in the position of fully adhering to certain provisions of the Riegle Act, specifically those related to the assessment of whether awardee performance goals and other statutory stipulations are achieved. If the CDFI Fund is not timely in identifying potential awardee non-compliance, there would likely be consequential delays in determining and executing available remedies under the Act and specific award agreements. Such remedies can include executory actions and financial remedies up to and including the full recapture of non-compliant award funds.

Recommendation

We recommend that management of the CDFI Fund undertake steps to ensure the CDFI Fund is fully complying with certain provisions of the Riegle Act, specifically those related to the assessment of whether awardee performance goals and other statutory stipulations are achieved.

Management's Response

The CDFI Fund concurs with the recommendation and is already in the process of taking the appropriate actions to resolve the issue. Specific actions include:

- (1) Award of a contract for an Awards Management Information System (AMIS) by December 31, 2012, if a contract is awarded under the current Request for Proposals. The CDFI Fund is in the final stages of proposal and price evaluations for this contract. The deployment of AMIS will include automation of compliance processes for the CDFI program awardees.
- (2) Increasing the compliance management staff from seven to twelve. Additional staff is expected to be on board by December 31, 2012. The additional resources will be deployed to ensure that required reports are reviewed on a timely basis following their receipt.
- (3) Conducting desk reviews and site visits during FY 2013. At least 20 site visits or desk reviews are scheduled through the end of the first quarter FY2013. Additional reviews are in the process of being planned for the remainder of the fiscal year.

The CDFI Fund notes that desk reviews and site visits are risk based and therefore will not be conducted on every awardee. While the CDFI Fund has performed some desk reviews and site visits in the past, management recognizes that more attention needs to be placed in this area as it works to implement a more robust compliance function.