



Audit Report



OIG-17-010

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Community
Development Financial Institutions Fund's Fiscal Year 2016
Financial Statements

November 14, 2016

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 14, 2016

**MEMORANDUM FOR MARY A. DONOVAN, 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 Fiscal Year 2016
Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the financial statements of the Community Development Financial Institutions (CDFI) Fund as of September 30, 2016, and for the year 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. 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated November 14, 2016, that discusses a matter involving internal control over financial reporting that was identified during the audit. This matter relates to controls surrounding the CDFI Fund's disbursement system.

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. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-0009, or a member of your staff may contact Catherine Yi, Manager, Financial and Procurement Audit, at (202) 927-5591.

Attachment



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

November 14, 2016

Inspector General
U.S. Department of the 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 U.S. Department of the Treasury, Community Development Financial Institutions Fund (the CDFI Fund), as of and for the year ended September 30, 2016, 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. 15-02, *Audit Requirements for Federal Financial Statements*, 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 Fund's internal control.

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

The CDFI Fund's written response to our comment 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 recommendations with you at any time.



Community Development Financial Institutions Fund
November 14, 2016
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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

Improvements are needed in controls surrounding the CDFI Fund's Disbursement System

Improvements are needed in controls surrounding the CDFI Fund's Disbursement System (System) to prevent or detect and correct unauthorized changes to production data or the application environment as neither the System nor database are structurally designed or coded to enforce segregation of duties.

Management contracted with a third party for development and system support to maintain the System and its databases. Management assigned a third party as the administrator, and permitted the development team to have update privileges within the System production environment.

Once management approves a system change request (SCR), the development team follows Standard Operating Procedures, which require segregation of duties by assigning a team member to each of the four roles within the change management function (develop, test, quality control, and deploy). The system first assigns the SCR to the SCR Manager, who then assigns it to a Developer. The Developer identifies and notates on the SCR ticket respective roles. Due to the small size of the third-party system, contractor team members can perform different roles on different SCRs. However, neither the System nor the database structure enforces any segregation of duties controls to prevent a contractor team member from performing all roles within the change management function. Management further stated that the contractors performing the change management function have database roles/privileges that allow them the ability to access and modify the application logs.

During FY 2016, CDFI Fund Management began to implement the Awards Management Information System (AMIS) to replace the Legacy System, and established AMIS implementation for certain but not all types of award authorizations and disbursements. As a result, the condition remains relevant for FY 2016.

Segregation of duties of the contractors is not enforced through the system which results in the potential for unauthorized system changes to a disbursement in certain scenarios.

Management may not detect and correct unauthorized changes within the System tables on a timely basis, which could lead to unauthorized access, modification, and/or disclosure of the System's production data and application environment.

Recommendations

We recommend that management:

1. Evaluate the existing privileges of the System development team members, including the SCR Manager, and reassign privileges that enforce segregation of duties at the application and database levels; and
2. As appropriate, document the risk assessment and acceptance of any incompatible duties, and implement an effective control to mitigate the risk of unauthorized access and activity (e.g., the implementation of a mechanism and process to log incompatible activities, and independently review the logs on a periodic basis and resolve any violations).

Management's Response

CDFI Fund Management concurs with the Notification of Finding and Recommendation.

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