



# Audit Report



OIG-14-008

Management Letter for the Audit of the Community  
Development Financial Institutions Fund's Fiscal Years 2013 and  
2012 Financial Statements

December 13, 2013

Office of  
Inspector General  
Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

December 13, 2013

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

**FROM:** Michael Fitzgerald  
Director, Financial Audit

**SUBJECT:** Management Letter for the Audit of the Community  
Development Financial Institutions Fund's Fiscal Years 2013  
and 2012 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 Fund) Fiscal Years 2013 and 2012 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 Fund's financial statements as of September 30, 2013 and 2012, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

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 Audit at (202) 927-5591.

Attachment



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

December 12, 2013

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 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, 2013, 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. 14-02, *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 audit 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 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 the response.

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 internal control, 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.



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

The purpose of this letter is solely to describe a comment and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

### **Maintaining Custody of Investment Master Files**

During our fiscal year 2013 financial audit of the Community Development Financial Institutions Fund (CDFI Fund) we tested the accuracy and existence of investments through confirmation testwork. Specifically, we sent confirmations to the investee and agreed the responses in the confirmation to the investment information in the Assistance Agreement (AA), share certificate, or and/or CDFI Fund subledgers. As a result of our procedures, we identified the following instances relating to maintaining custody of assets.

Of the six items sampled, we identified:

- One instance where the CDFI Fund transferred the master file to the Federal Record Center (FRC) and was unable to provide the master file containing AA, share certificate, and investment schedule to the audit team due to the fact that the file was lost in shipping between FRC and the CDFI Fund.
- Another instance where the CDFI Fund was unable to locate the master file containing AA, share certificate and investment schedule.

While many investment master files are kept at the CDFI Fund's office, master files that have been closed out are transferred to FRC based on established records retention schedules. Thus, there is a reliance on the FRC to maintain custody of these files, which in some cases include the original legal instruments. While the CDFI Fund does utilize a file tracking system, the one missing file was not in the CDFI Fund's possession at the time the file tracking system was implemented, and therefore was not included in the listing of records.

Accordingly, the custody of key legal contracts and evidence of share ownership were not properly and consistently maintained. Specifically, the CDFI Fund is not consistently assuring custody of master files that may include share certificates, etc. There is potential that the information within the file may be lost, forged or destroyed, which could result in inability to prove the ownership of an investment and/or enforce investment provisions. Additionally, master files themselves may be lost or misplaced due to the improper custody controls over such assets and records at the CDFI Fund. This may result in difficulty or inability to prove the ownership of investment. This could also potentially result in overstatement of certain assets in the CDFI Fund's balance sheet and the potential of financial loss in cases where original documents are used for fraudulent purposes.

### ***Recommendations***

We recommend that CDFI Fund management:

1. Implements or revises policies and procedures to maintain custody of investment master files and records, including: (i) undertaking to inventory the extent and locales of such files and records, specifically those files that relate to assets (loans and investments) that are recorded in the CDFI Fund's financial statements; and (ii) determining the extent to which certain key original documents can be maintained securely on-site, including modifying standard operating procedures, as applicable to ensure all investment files remain in "active status" for the appropriate time.

2. Undertake as necessary and legally appropriate, measures with counterparties to suitably void and obtain suitable replacement certificates or contracts where original documents have been lost or misplaced.

***Management's Response***

Management concurs with this finding.

In response to the NFR, the CDFI Fund will:

1. Inventory the location of loan and investment records that are recorded in the CDFI Fund's financial statements to ensure they reside at their proper site (i.e., CDFI Fund or FRC).
2. Review and revise, as needed, standard operating procedures to ensure investment files remain in the "active status" for the appropriate time.
3. In instances where original documents have been lost or misplaced, undertake as necessary and legally appropriate, such measures to suitably void the lost or misplaced documents, and obtain suitable replacement certificates or contracts.