



# Audit Report



OIG-11-025

Management Letter for Fiscal Year 2010 Audit of the  
Community Development Financial Institutions Fund's Financial  
Statements

November 15, 2010

Office of  
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 15, 2010

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

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

**SUBJECT:** Management Letter for Fiscal Year 2010 Audit of the  
Community Development Financial Institutions Fund's  
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 Year 2010 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 CDFI's financial statements as of September 30, 2010, and for the year 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 matters involving internal control over financial reporting that were identified during the audit, but were 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  
2001 M Street, NW  
Washington, DC 20036-3389

November 10, 2010

Inspector General  
U.S. Department of Treasury  
740 15th Street NW  
Washington, DC

Director  
Community Development Financial Institutions Fund  
601 13th Street NW  
Washington, DC

In planning and performing our audit of the financial statements of the Community Development Financial Institutions Fund (CDFI Fund), as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America, 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 certain matters involving internal control and other operational matters that are presented for your consideration. These comments and 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 comments and recommendations is presented in Appendix A and has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In addition, we identified certain deficiencies in internal control that we consider to be a significant deficiency, and communicated it in writing to management and those charged with governance in our *Independent Auditors' Report on Internal Control Over Financial Reporting* dated November 10, 2010.

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.



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We would be pleased to discuss these comments and recommendations with you at any time.

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**

### **Lack of efficiencies**

The Departmental Offices - Office of Financial Management (OFM) performs the functions and activities typically performed by the Office of the Chief Financial Officer on behalf of the Community Development Financial Institutions Fund (CDFI Fund). During our review of loans receivable and investments, we noted that certain offices in the Fund (e.g. program office) were performing similar tasks as OFM for different purposes. We also noted that the CDFI Fund awarded grants to investees and borrowers without comprehensively considering the impact of such activity on the CDFI Fund's valuation of the loans receivable or investment balances. Specifically, we noted the program office was performing a ratio analysis using information from borrowers' financial statements, and OFM was also performing a similar ratio analysis for determining the loan allowance.

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, prescribes the expectation of management and the responsibility of managers for the quality and timeliness of program performance. Management controls are the organization policies and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

The Fund's management and staff do not routinely utilize work performed by other offices and operational subdivision within the CDFI Fund.

The Fund may have overlapping tasks between OFM and the CDFI Fund which could cause inefficiencies and potentially contradicting information.

### ***Recommendations:***

We recommend that management of the CDFI Fund:

- 1 Explore sharing similar data prepared by different groups, e.g. CCME, OFM, Programs, etc. so that such data can may be streamlined and not recreated, thus providing a potential benefit of higher quality and data standardization.
- 2 Develop and implement formal channels of communication (i.e. points of contact, regular discussions, etc.) to ensure that information is communicated and shared across relevant functions within the CDFI Fund including OFM.

### ***Management's Response:***

The CDFI Fund concurs with the recommendation to explore further sharing of data between groups.

## Appendix A

During FY2010, the CDFI Fund implemented detailed loan modification and loan allowance calculation processes which greatly improved past analyses in both of these areas. OFM will expand upon these improvements by working with Program to streamline and standardize the loan modification and loan allowance analysis processes as of February 28, 2011 to take advantage of synergies between processes.

The CDFI Fund also concurs with the recommendation to develop and implement additional formal channels of communication across relevant functions. During FY2010 many improvements were made in this area including: monthly finance meetings involving OFM, CCME, Program and CDFI management, formal monthly reviews and discussions of the loan and investment schedules, and joint analyses of administrative work-outs. The action plan discussed in NFR 2010-CDFI-02 to implement a procedure to distribute, on a monthly basis beginning January 31, 2011, a cumulative list of awards made to investees will also increase data sharing between groups and further enhance formal sharing of information.

### **Improvements needed in the submission of the Management Discussion and Analysis**

The CDFI Fund's Management Discussions and Analysis (MD&A) titled Fund Overview, Program Discussion and Analysis, and Status of Financial Management sections were not completed in a timely manner. Specifically, after several deferred delivery dates we received a partial draft on October 29, 2010 with significant pending, missing, and erroneous content. For example, pending content included Allocation of CDFI Fund Funding, Sources of Funding, Description of the CDFI Fund's Financial Management System, FY 2010 Financial Management Initiatives, Management Responsibilities, Limitations of the Financial Statements, Analysis of Financial Position and Results of Operations. Several of the completed sections provided were not updated for FY 2010 information. As an example of erroneous or missing data, under the "Certified CDFIs" section, the number of FY 2010 certified CDFIs disclosed matched the number in a previous section for the 2009 certified CDFIs; the chart under FY 2010 Awards for TA awards did not include the 2010 awards; the chart of Number of Certified Community Development Entities at Year End in the "New Markets Tax Credit Program" section did not include 2010 data and the number disclosed in the preceding paragraph was also not updated for the 2010 CDEs; and the "NMTC Activities to Date" referred to tables and charts "below" that were not included. In addition, the draft stated, "Through the Capital Magnet Fund (CMF), in FY 2010 the CDFI Fund provided \$80 million in competitively awarded grants..." when the grants were not awarded until October 14, 2010 which is in FY 2011. We also noted that certain data communicated to the Department of Treasury for inclusion in the Department of Treasury consolidated performance and accountability report was inaccurate and inconsistent with the CDFI Fund's activity for FY2010.

## Appendix A

The Office of Management and Budget's (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised states, "Agencies and Government Corporations shall submit their Performance and Accountability Reports (PARs), Agency Financial Reports (AFRs), or Annual Management Reports (as described in the Government Corporations Control Act) to OMB and the Congress no later than 45 calendar days after the end of the fiscal year. (For those agencies or corporations with a September 30 fiscal year end, the due date is November 15) This Circular makes this 45-day deadline a permanent annual requirement for all executive agencies and Government Corporations regardless of fiscal year."

The Circular also states, "The content of MD&A is the responsibility of management. Its preparation at a minimum should be a joint effort of the Chief Financial Officer (CFO) office, the Performance Improvement Officer (PIO) office, and program offices, and offices responsible for performance reporting. Management has considerable discretion with respect to the presentation, subject to the required components and the pervasive requirement that the MD&A not be misleading. The MD&A provides management with a vehicle for communicating insights about the entity, increasing the understandability of financial information, and providing information about the entity, its operations, service levels, successes, challenges, and future. The MD&A is an integral part of the annual PAR or AFR and should be regarded as required supplementary information (RSI)."

There is unclear accountability among the CDFI Fund's management and staff regarding roles and responsibilities over the PAR.

The CDFI Fund may have a breakdown of financial reporting controls as completion and submission of its financial statements on a timely basis is a critical component of an effective control structure. Also, the Fund may not be able to meet its statutory reporting deadline.

### ***Recommendations:***

We recommend that management of the CDFI Fund:

- 1 Establish a pro forma process to be completed at an interim period for the MD&A sections of the PAR.
- 2 Establish formal roles and responsibilities together with completion milestones for CDFI Fund management and staff involved in formation its financial statements, including the MD&A.

### ***Management's Response:***

The CDFI Fund does not concur with this finding. It is inaccurate to state that there is unclear accountability of roles and responsibilities for the preparation of the CDFI Fund's Management Discussion and Analysis (MD&A). In compliance with the cited sections of Circular A-136, the

## Appendix A

MD&A was prepared through a joint effort of CDFI Fund management (in consultation and coordination with the Office of Financial Management), the Office of Financial Strategies & Research, and all appropriate program offices, and submitted to the auditors on November 5, 2010.

Please note that certain of the program data that was included in the final MD&A was not available until mid-October, just after the fiscal year reporting deadline for CDFI Fund awardees. Once the awardee reporting data was received, it was necessary to conduct data quality checks. This timing information was communicated to the auditors as justification for the delay. The draft submitted to the auditors on October 29 was in substantially complete form: at that time, the auditors were informed that the document needed final fact-checking, clearance and insertion of final financial management notes.

The recommendations have already been put into place. In addition, now that the transition of the CDFI Fund's financial management functions to the Office of Financial Management is complete, audit process management responsibilities (including serving as audit point of contact) have shifted, which will impact next fiscal year's audit processes.