Audit Report

OIG-20-037

DOMESTIC AND INTERNATIONAL ASSISTANCE PROGRAMS

Improvements Are Needed in the CDFI Fund’s Administration of Technical Assistance Awards

June 12, 2020

Office of
Inspector General

Department of the Treasury
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Audit Report

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Abbreviations

AMIS
Assistance Agreement
CCME
CDFI
CDFI Fund
FA
FY
GAO
JAMES
NACA
NCMR
OIG

Awards Management Information System
Community Development Financial Institutions Fund Assistance Agreement
Certification, Compliance Monitoring and Evaluation
community development financial institution
Community Development Financial Institutions Fund
Financial Assistance
fiscal year
Government Accountability Office
Joint Audit Management Enterprise System
Native American CDFI Fund Assistance
Noncompliance Memo Replacement
Office of Inspector General
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<td>OMB</td>
<td>Office of Management and Budget</td>
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<td>RFI</td>
<td>Request for Information</td>
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<td>Reports Monitoring System</td>
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<td>SOPs</td>
<td>CDFI Program and Native Initiatives Standard Operating Procedures</td>
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<td>TA</td>
<td>Technical Assistance</td>
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June 12, 2020

Jodie Harris
Director, Community Development Financial Institutions Fund

This report presents the results of our audit of the Community Development Financial Institutions (CDFI) Fund’s Technical Assistance (TA) awards made from fiscal year (FY) 2006 through FY 2012. The objective of our audit was to determine whether awardees met the CDFI Fund’s certification requirement as outlined in their TA Assistance Agreement(s).¹ As part of our audit, we also assessed CDFI Fund’s monitoring activities for ensuring TA awardees’ compliance with their Assistance Agreement(s). The scope of our audit comprised all 315 TA awards totaling $26,862,063 made to 269 entities from FY 2006 through FY 2012. Within this scope, 105 TA awardees comprising $9,338,317 were not CDFI certified at the time of their awards.

We tested all 105 TA awards for compliance with CDFI Fund’s certification requirements. We also selected a statistical sample of 75 awardees (comprising $6,702,518) from the population of 315 TA awards for the purpose of assessing CDFI Fund’s monitoring activities for ensuring awardees’ compliance with their TA Assistance Agreement(s). Appendix 1 provides more detail on our audit objective, scope, and methodology.

In brief, we found that 41 of the 105 non-certified TA awardees (39 percent) did not achieve CDFI certification in accordance with their Assistance Agreement(s). That is, 10 non-certified TA awardees received certification subsequent to the performance periods stated in their Assistance Agreement(s), 15 non-certified TA awardees did not apply for certification, and 16 non-certified TA awardees applied but were declined CDFI certification. In all,

¹ A certified CDFI is a non-governmental, specialized financial institution that works in low-income communities or serves individuals or businesses that lack access to mainstream financial institutions. To become a certified CDFI, an applicant must submit a Certification Application for approval by the CDFI Fund.
only 5 of the non-certified TA awardees were found in default of their Assistance Agreement(s), and 26 non-certified TA awardees were found non-compliant but not in default at the discretion of the CDFI Fund. The Assistance Agreement(s) required non-certified TA awardees to obtain CDFI certification by the end of the two-year performance period or by a date specified.\(^2\)

In addition, we found that CDFI Fund’s monitoring activities did not ensure awardee compliance with their Assistance Agreement(s). Specifically, we found that Certification, Compliance Monitoring, and Evaluation (CCME) staff did not (1) follow up on delinquent annual reports, (2) review awardees’ annual reports timely and close out\(^3\) TA awards after final performance period ends, and (3) monitor awardees’ progress towards achieving CDFI certification. Furthermore, CDFI Fund’s CDFI Program and Native Initiatives Standard Operating Procedures (SOP) in place during FY 2006 through FY 2012 did not include procedures specific to addressing these control activities.

We recommend that the Director of the CDFI Fund (1) consider requiring a reasonable CDFI Certification Application deadline for awardees in the Assistance Agreement(s) that will allow CCME staff sufficient review time and make certification decisions within the 90 calendar day timeline outlined in the CDFI Certification Procedures; (2) reassess CCME staff resources necessary to review CDFI Certification Application(s) and make certification decisions within the 90 calendar day timeline outlined in the CDFI Certification Procedures; (3) reassess the significance given to TA awardees’ non-compliance with the CDFI certification requirement of the Assistance Agreement(s) when making a determination of default or no-default since one of several goals is for a non-certified entity to build capacity and become a certified CDFI; (4) ensure that CCME staff fully document the reasons for determinations of default or no default when TA awardees are non-compliant with their Assistance Agreement(s); (5) establish in SOPs a reasonable

\(^2\) Beginning with the FY 2018 funding round, non-certified TA awardees are required to achieve CDFI certification by the end of a three-year performance period or a date specified in the Assistance Agreement(s) with the CDFI Fund.

\(^3\) Award closeout is the process by which a Federal awarding agency determines that all applicable administrative actions and all required work of the award have been completed by the recipient and the Federal awarding agency.
timeline for follow up on TA awardees’ delinquent annual reports; (6) reassess information technology capabilities to determine if system users can be automatically alerted of delinquent reports; (7) assess CCME staffing levels to ensure sufficient compliance monitoring is performed for making awardee compliance determinations and closing out awards within the timeline established in the updated SOP; (8) ensure the closeout of all 315 TA awards within the FY 2006 through FY 2012 scope of this report; and (9) establish and implement procedures that require monitoring of TA awardees’ progress toward meeting CDFI certification requirements prior to submitting a CDFI Certification Application.

In a written response, CDFI Fund management concurred with all of the report’s recommendations. According to management, the CDFI Fund implemented the following corrective actions to address each recommendation: (1) added a performance goal to their Assistance Agreement(s) that requires TA awardees to submit a CDFI Certification Application one year prior to their requirement to become certified, and implemented the Awards Management Information System (AMIS) to better review certification applications; (2) assesses the need for staffing on an on-going basis, subject to budget constraints, and utilizes AMIS to monitor certification application reviews; (3) implemented a process to assess the severity of an awardee’s noncompliance when making a determination of default or no default, and increased the level of severity given to TA awardees that are noncompliant with the certification requirement by finding them in default and providing them with an opportunity to cure; (4) enhanced policies and procedures to ensure compliance determinations are fully documented; (5) operationalized compliance SOPs within AMIS to enable CCME to follow up on delinquent reports within a reasonable timeframe; (6) implemented system requirements in AMIS that send automated report due date reminders and overdue report notices to awardees; (7) assesses the need for staffing on an on-going basis subject to budget constraints, and uses automated AMIS features to ensure compliance determinations are made within the SOPs timeframes; (8) closed out all 315 TA awards within the FY 2006 through FY 2012 scope of this audit report; and (9) added a performance goal in the Assistance
Agreement that requires recipients to submit a CDFI Certification Application one year prior to the requirement for the recipient to become a certified CDFI and aligned the CDFI application the certification policy to assist in assessing applicants’ ability to meet the requirement. Also, CCME is actively monitoring awardees progress towards certification in AMIS and conducting monthly conference calls to provide technical assistance to organizations seeking CDFI certification.

We consider CDFI Fund’s corrective actions, if implemented as stated, to be responsive to our recommendations. Regarding management’s response to updating SOPs for delinquent report follow up, we encourage management to update its compliance SOPs to incorporate additional timeframes for CCME staff to follow up directly with recipients on reports that remain delinquent after receiving AMIS notifications. Overall, management will need to record its stated corrective actions and implementation dates in the Joint Audit Management Enterprise System (JAMES), Treasury’s audit recommendation tracking system. We have summarized management’s response in the recommendation sections of this report. Management’s written response, in its entirety, is included as appendix 2 of this report.

Background

The Riegle Community Development and Regulatory Improvement Act of 1994 established the CDFI Fund to promote economic revitalization and community development through financial assistance to CDFIs in the form of grants, loans, equity and other investments. In July 1995, the CDFI Fund began operations within the Department of the Treasury (Treasury) with all powers and rights of the administrator assigned to the Secretary of the

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4 Public Law 103-325, 108 Stat. 2160; September 23, 1994
Treasury, who delegated authority to the Director of the CDFI Fund in November 1995.

Since 1996, the CDFI Fund has provided financial and technical assistance to CDFIs operating in underserved communities through the CDFI Program and Native American CDFI Assistance (NACA) Program. The CDFI Fund also supports community development through the Bank Enterprise Award Program, which provides grants to institutions insured by the Federal Deposit Insurance Corporation. The CDFI Fund’s role in promoting community and economic development expanded in FY 2001 when the Secretary of the Treasury delegated authority to the CDFI Fund to award tax credits to community development entities investing in underserved communities. The CDFI Fund’s portfolio continued to expand with the creation of the Capital Magnet Fund in FY 2008, which makes competitively awarded grants to finance affordable housing. The CDFI Bond Guarantee Program was created in FY 2010 to provide long-term credit to CDFIs at below market interest rates.

The CDFI Program grants assistance to entities that serve low-income individuals and communities that lack access to affordable financial products and services. There are two types of grant awards: TA awards and Financial Assistance (FA) awards.

Technical Assistance Awards

TA awards are grants intended to build the capacity of an existing certified CDFI or an entity seeking to become certified as a CDFI. TA awards may be used for compensation, personnel services and fringe benefits, professional services, travel, training and education, equipment, and supplies. Only CDFIs certified by the CDFI Fund may receive FA awards, but TA awards may be made to both certified CDFIs and non-certified entities. During the FY 2006 through FY 2012 funding rounds, an entity seeking certification must become certified within two years after receiving the TA award or the date specified in the Assistance Agreement(s) with the CDFI Fund.

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6 Treasury Directive 13-05, Delegation of Authority for Administering the Community Development Financial Institutions Fund; October 31, 2013
The CDFI Fund annually publishes a Notice of Funds Availability, which specifies the amount of TA funding available for an award round. During its funding rounds for fiscal years 2006 through 2012, the CDFI Fund awarded 315 TA grants to 269 awardees, totaling $26,862,063. Of this amount, $9,338,317 of awards were made to 105 non-CDFI certified entities. Individual TA awards during this period were limited to a maximum of $100,000.

Prior to receiving funds, all awardees must sign an Assistance Agreement that contains the award terms and conditions, including the award amount, uses, targeted market or activities, performance goals and measures, and reporting requirements. For TA awards made during FY 2006 through FY 2012, Assistance Agreement(s) had a two-year performance period, while Assistance Agreement(s) that combined FA and TA awards had a three-year performance period.

CDFI Certification

CDFI certification is a designation given by the CDFI Fund that is generally effective for three years (or other period set by the CDFI Fund) unless otherwise terminated. To become certified, entities must submit a CDFI Certification Application (separate from its application for TA award) and must (1) be a legal entity; (2) have a primary mission of promoting community development; (3) be a financing entity; (4) provide development services along with financing activities; (5) serve one or more target market(s); (6) maintain accountability to its defined target market(s); and (7) be a non-government entity and not under the control of any government entity.

The CCME staff within the CDFI Fund are responsible for monitoring awardee compliance with their Assistance Agreement.

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7 Thirty-six entities received more than one TA award, including eight entities that received three TA awards and one entity that received four TA awards.
8 Does not include Native American entities, which received separate Congressional appropriations for TA awards.
9 Maximum TA award amount increased to $125,000 in fiscal year 2014, which was not within the scope of this audit.
10 Beginning with the FY 2016 funding rounds, the CDFI Fund required all certified CDFIs to submit an Annual Certification and Data Collection Report, which allows the CDFI Fund to annually assess CDFIs’ compliance with certification guidelines.
Agreement(s). Compliance monitoring includes, among other activities, review of TA awardee annual reports and, if necessary, desk reviews to follow-up on reported information. Annual reports are due 180 days after an awardee’s FY end, and include the following:

- the Financial Report, which includes the awardee’s financial statements and related auditor’s and accountant’s review reports;
- the Institution Level Report, which captures an awardee’s total financial activity which the CDFI Fund uses to determine the awardee’s compliance with the performance goals set forth in the Assistance Agreement(s);
- the audit reports required by the previous Office of Management and Budget Circular (OMB) No. A-133 (if required, this report is due 270 days after an awardee’s FY-end),
- the Uses of TA Report, which identify how a TA awardee specifically used its award;
- the Explanation of Noncompliance, which identifies the reason an awardee failed to meet a performance goal, as applicable; and
- the Federal Financial Report/Standard Form 425, which captures the financial status of an agreement at a specific point in time including grant cash receipts and disbursements, expenditures and obligations, and program income.

Finding 1  Thirty-Nine Percent of Non-Certified TA Awardees Did Not Achieve CDFI Certification as Required by Assistance Agreement(s)

Assistance Agreement(s) required non-certified TA awardees to obtain CDFI certification by the end of the two-year performance period or other date assigned by the CDFI Fund. In the case of the 315 TA awards made from FY 2006 through FY 2012, 210

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awardees were already CDFI certified at the time of their awards. Of the remaining 105 non-certified TA awardees, only 57 of them (or 54 percent) achieved CDFI certification within the performance periods stated in their respective Assistance Agreement(s). Another seven non-certified awardees (or 7 percent) with awarded amounts totaling $570,875 reported their inability to become CDFI certified and declined or returned funds to the CDFI Fund. The remaining 41 non-certified awardees (or 39 percent) with TA awards totaling $3,805,224 did not achieve CDFI certification in accordance with their Assistance Agreement(s) as follows:

- 10 awardees were CDFI certified subsequent to the performance periods stated in their Assistance Agreement(s), which included 5 awardees with TA awards totaling $460,664 that applied for CDFI certification during their performance periods; and 5 awardees with TA awards totaling $455,015 that applied for and received CDFI certification after their performance periods;
- 15 awardees with TA awards totaling $1,377,203 never applied for CDFI certification; and
- 16 awardees with TA awards totaling $1,512,342 applied for CDFI certification but were declined.

Awardees that Were CDFI Certified Subsequent to Performance Periods

Of the 10 awardees that the CCME certified subsequent to their performance periods, 5 awardees applied for CDFI certification within their stated performance periods and 5 of them did not. Of the 5 awardees which submitted a CDFI Certification Application within their stated performance periods, 3 submissions were between 4 and 88 days before the performance period ended. That said, the CDFI Fund did not stipulate a CDFI Certification Application deadline in its TA Assistance Agreement(s) but did state that it “strongly encourages the Awardee to submit its

12 Of the seven non-certified awardees that reported inability to become CDFI certified, five of them declined to receive awards totaling $478,885, and two returned awards totaling $91,990.
certification application no later than 90 days prior to the performance measure date."

Additionally, the *CDFI Certification Procedures* handbook states that certification “decisions will be made within 90 calendar days of application submission.” For 9 of the 10 awardees CDFI certified subsequent to their respective performance periods, it took the CCME staff between 95 and 487 days to review the *CDFI Certification Application(s)*\(^{13}\) and make certification decisions. CCME officials informed us that they did not consistently meet the 90-day decision timeline because (1) competing priorities were pulling resources from the *CDFI Certification Application review process*, which delayed rendering of a certification determination; and (2) awardees may have needed additional time to make corrections to their *CDFI Certification Application* and demonstrate they met certification requirements.

Overall, both TA awardees and CCME staff were not fully meeting their respective responsibilities regarding CDFI certification. The lack of an explicit *CDFI Certification Application* deadline in the *Assistance Agreement(s)* along with CCME staff’s delayed application reviews and certification decisions resulted in disparate treatment of TA awardees. That is, not all awardees were treated consistently as certain awardees received CDFI certification when submitting a *CDFI Certification Application* after their performance period ended.

**Awardees that Never Applied or Were Declined CDFI Certification**

As discussed in the background section of this report, an entity must meet the following requirements to become CDFI certified: (1) be a legal entity; (2) have a primary mission of promoting community development; (3) be a financing entity; (4) provide development services along with financing activities; (5) serve one or more target market(s); (6) maintain accountability to its defined target market(s); and (7) be a non-government entity and not under the control of any government entity.

\(^{13}\) One of the 10 *CDFI Certification Application(s)* was approved within the 90-day CCME review window.
According to CDFI Fund’s records, 14 of the 15 awardees\textsuperscript{14} that did not apply for CDFI certification and all 16 that applied but were declined failed to meet one or more of the following CDFI certification requirements:

- did not demonstrate that it was operating as a financing entity at the time of certification application;
- did not direct at least 60 percent of financial product activities to at least one eligible “Investment Area”\textsuperscript{15} or “Targeted Population”\textsuperscript{16} and/or
- did not maintain accountability to residents of the “Investment Area(s)” or “Targeted Population(s)” through representation on the governing board or equivalent.

In all, CCME officials found 5 awardees in default of their Assistance Agreement(s), which included three awardees that did not apply for CDFI certification and two awardees that were declined. CCME officials applied remedies allowed under the Assistance Agreement(s) as follows: (1) banned two awardees in default from applying for another TA award for one year (one of which was required to return $9,137 of its unexpended award amount); and (2) banned one awardee from applying for another TA award for two years. The remaining two awardees were no longer in existence at the time they were found in default, and CCME sought no other action. The remaining 26 awardees were found non-compliant with their Assistance Agreement(s) but not in default. According to the Assistance Agreement(s), the CDFI Fund, in its sole discretion, may find an awardee in default in the event of failure to “observe, comply with or perform any term, covenant, covenant, covenant.”

\textsuperscript{14} One of the 15 awardees did not provide a reason for not submitting a CDFI Certification Application.

\textsuperscript{15} An Investment Area must have met “at least one of the following economic distress criteria and had significant unmet needs for financial products and services, or were wholly located within an Empowerment Zone or Enterprise Community (as designated under section 1391 of the Internal Revenue Code of 1986). The distress criteria are poverty rate greater than 20%, median family income at 80% or below applicable benchmarks, or unemployment rate 1.5 times the national average.”

\textsuperscript{16} A Targeted Population is defined as “either (1) Low Income Targeted Populations – for a specified geographic unit, individuals whose family income (adjusted for family size) is 80% of the metropolitan area median family income or the greater of 80% of the non-metropolitan area median family income or 80% of the statewide non-Metropolitan Area median family income, or (2) Other Targeted Populations – for a specified geographic unit, populations that are: African-American, Hispanic, Native American, Native Alaskan, Native Hawaiian, Other Pacific Islander, residing in Other Pacific Islands.”
agreement, or other provision of the CDFI Fund regulations and the Assistance Agreement(s).” As such, CCME officials chose not to do so for the other 26 TA awardees that failed to meet their certification performance goal. No specific reasons were provided to us or documented by CCME personnel.

According to the Government Accountability Office’s (GAO) Standards for Internal Control in the Federal Government in place during the FY 2006 through FY 2012 period under audit, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.”

Treasury Directive (TD) 80-05, Records and Information Management Program, in effect at the time, required among other things, that program officials have primary responsibility to create and maintain those records needed to ensure adequate and proper documentation of their area of responsibility. TD Publication (TD P) 80-05, Records and Information Management Manual, further stated “All program officials shall create and maintain adequate and proper documentation of the program for which they are responsible. This means a record of the conduct of government business that is complete and accurate to the extent required to document the organization functions, policies, decisions, procedures, and essential transactions of their office and to protect the legal and financial interest of the government and of persons directly affected by the activities of their office.”

During our audit, CDFI Fund management recognized that the certification process needed to be re-examined. To that end, the CDFI Fund published a Request for Information (RFI), in January

17 GAO, Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1; November 1999) was superseded by Standards for Internal Control in the Federal Government (GAO-14-704G; September 2014) effective beginning FY 2016.
18 Treasury, Records and Information Management (TD 80-05, June 26, 2002) was updated in Jan January 31, 2018.
2017, seeking public comments on the criteria used to evaluate entities applying for CDFI certification. The purpose of the RFI was to review the CDFI Fund’s CDFI certification tests to ensure that those tests continue to meet the statutory and regulatory requirements of the CDFI Program along with its primary goal of supporting, rather than inhibiting, the growth and reach of CDFIs. CDFI Fund management stated that after internal review, the results of the RFI would be used to update its certification guidelines. At the time of our audit, the CDFI Fund was still reviewing the RFI results. As of June 2019, this internal review was still in progress.

Recommendations

We recommend that the Director of the CDFI Fund do the following:

1. Consider requiring a reasonable CDFI Certification Application deadline in the Assistance Agreement(s) that will allow CCME staff sufficient review time to make certification decisions within the 90 calendar day timeline outlined in the CDFI Certification Procedures.

Management Response

CDFI Fund management concurred with this recommendation. Management noted that in FY 2017, the CDFI Fund added a performance goal in the Assistance Agreement that requires TA awardees to submit a CDFI Certification Application one year prior to the requirement for the awardee to become a certified CDFI. This enhancement, along with the implementation of AMIS in FY 2016, provides CCME staff with a standardized, automated, and transparent system to review certification applications and make certification determinations in accordance with the timeframes established in CCME’s policies and procedures.
Management’s corrective actions, if implemented as stated, meet the intent of our recommendation.

2. Reassess CCME staff resources necessary to review *CDFI Certification Application(s)* and make certification decisions within the 90 calendar day timeline outlined in the *CDFI Certification Procedures*.

Management Response

CDFI Fund management concurred with this recommendation and noted that senior management assesses the need for staffing on an on-going basis subject to budget constraints. As discussed above, the implementation of AMIS also enables the CDFI Fund to monitor the status of *CDFI Certification Applications* and allocate resources to meet the timeframes stated in CCME’s SOPs.

Management’s corrective actions, if implemented as stated, meet the intent of our recommendation.

3. Reassess the significance given to TA awardees’ non-compliance with the CDFI certification requirement of the *Assistance Agreement(s)* when making a determination of default or no default since one of several goals is for a non-certified entity to build capacity and become CDFI certified.

Management Response

CDFI Fund management concurred with this recommendation. Management noted that in FY 2015, the CDFI Fund implemented a process to assess the severity of an awardee’s noncompliance when making a determination of default or no default. This process leverages the Noncompliance Memo Replacement (NCMR), a risk assessment tool that takes into account a series of set
factors, such as an awardee’s past compliance history, to ensure compliance determinations are made in a consistent manner. In FY 2018, the CDFI Fund further enhanced its process by increasing the level of severity given to TA awardees that are noncompliant with the CDFI certification requirement of the Assistance Agreement by finding the awardee in default and giving the awardee an opportunity to cure.

OIG Comment

Management’s corrective actions, if implemented as stated, meet the intent of our recommendation.

4. Ensure that CCME staff fully document the reasons for determinations of default or no default when TA awardees’ are non-compliant with their Assistance Agreement(s).

Management Response

CDFI Fund management concurred with this recommendation. The response noted that, beginning in FY 2017, CCME enhanced policies and procedures to ensure compliance determinations are fully documented via the NCMR process described above. The CCME Program Manager approves determinations that find awardees in default. CCME then communicates determinations to awardees via formal written notice and updates the final compliance statuses within AMIS to promote transparency.

OIG Comment

Management’s corrective actions, if implemented as stated, meet the intent of our recommendation.

Finding 2 Monitoring Activities Were Not Sufficient to Ensure TA Awardee Compliance

CCME’s monitoring activities were not sufficient to ensure TA awardees were in compliance with their Assistance Agreement(s).
As described in detail below, we found that CCME staff did not (1) follow up on TA awardees’ delinquent annual reports, (2) review TA awardees’ annual report submissions timely for compliance and final close out of TA awards after the final performance period ends, and (3) monitor TA awardees’ progress towards achieving CDFI certification. Furthermore, CDFI Fund’s CDFI Program and Native Initiatives Standard Operating Procedures (SOP) in place during FY 2006 through FY 2012 did not include procedures specific to addressing these control activities.

According to the GAO Standards for Internal Control in the Federal Government applicable to the FY 2006 through FY 2012 period under audit, “management should design and implement internal control. Activities need to be established to monitor performance measures and indicators...Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.”

GAO’s internal control requirements, effective beginning FY 2016, further defined control activities as “actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system. Management should design control activities to achieve objectives and respond to risks. Management should design the entity’s information system and related control activities to achieve objectives and respond to risks. Management should implement control activities through policies.”

**Delinquent Annual Reports**

The Assistance Agreement(s) require awardees to submit annual reports during and after their respective performance periods. Annual reports are due 180 days after an awardee’s respective FY year-end, and include among the following: (1) the Financial Report, (2) Institution Level Report, (3) audit reports required by Office of Management and Budget Circular No. A-133 (if required,
this report is due 270 days after an awardee’s FY year-end), (4) Uses of TA Report, (5) Explanation of Noncompliance, and (6) Federal Financial Report/Standard Form 425. Annual reports are tracked in CDFI Fund’s Reports Monitoring System (RMS) and CCME staff review reports to verify awardee compliance with their Assistance Agreement(s).

Additionally, the CDFI Fund’s SOP for the period FY 2006 through FY 2012 did not provide for consistent and timely follow up by CCME on awardees’ delinquent annual reports. From FY 2006 through FY 2008, the SOP did not specify a timeline for CCME staff to follow up on delinquent annual reports. Between FY 2009 and FY 2010, the SOP was modified to require follow up on delinquent annual reports within 30 days. The criteria for follow up on late reporting was removed from the SOP in FY 2011, and then reinstated in FY 2012 at 45 days. When the SOP did specify a timeline for follow-up, awardee notification of delinquent reports was “subject to sufficient CCME staffing resources.” Although not within the scope of this audit, we noted that the CDFI Fund’s FY 2017 SOP require CCME staff to send reporting reminders to awardees in advance of reporting deadlines. Additionally, CCME staff are to identify any delinquent annual reports and notify awardees that they have 10 business days to submit overdue reports to avoid default procedures. However, the SOP did not specify a deadline for CCME staff to identify delinquencies and notify awardees.

We reviewed RMS for the annual report submissions of the 75 sampled TA awardees and found that CCME staff did not follow-up timely or at all on 141 delinquent annual reports of the 926 total reports due. That is, CCME staff took between 46 and 827 days to follow up on 108 delinquent reports and did not follow-up at all on the remaining 33 delinquencies.

CCME staff told us that consistent and timely follow-up was difficult because RMS did not automatically notify them of delinquent reports, thereby requiring awardee files to be researched individually. Additionally, RMS did not keep a historical record of all dates that CCME staff made changes to awardee annual reports and only captured the date of the most recent updates. For
example, if an awardee submitted an annual report on time that was rejected by CCME staff, the report’s resubmission date would be the latest record in RMS. As such, an annual report that was submitted on time could reflect a delinquency in RMS. To preserve the initial submission date, CCME staff would have to manually change the report date in RMS or make notes in the awardee’s file to give credit for timely report submission. CCME’s Associate Program Manager also stated that many of these issues would be resolved with the implementation of AMIS.21

Annual Report Reviews and Award Closeouts

The CDFI Fund’s SOP for FY 2006 through FY 2012 did not specify a timeline for initializing a review of awardees’ annual reports and making a compliance determination based on the review. We found that, in many cases, CCME took a significant amount of time to initiate reviews of annual reports submitted by TA awardees in our sample. Specifically, CCME staff did not initiate reviews of 365 of the 926 annual reports (or 39 percent) due until 91 days after receipt. Review of 59 of the 365 annual reports (or 16 percent) did not begin for at least one year after receipt.

Without timely review of annual reports, CCME staff were unable to make timely determinations of TA awardees’ compliance with their Assistance Agreement(s). Compliance determinations impact an awardee’s ability to receive future awards for both TA and other financial assistance under the CDFI Program.

Similarly, compliance reviews are part of the award closeout process. In our sample of 75 TA awards, the CCME staff closed out 56 awards within one year after receipt of all required final reports. However, 17 were closed out between 51 and 1,729 days

21 AMIS was not fully operational within the period of the audit scope. While the application submission module became fully operational in April 2017, the reporting module was not. As such, AMIS was not tested as part of this audit. According to the CDFI Fund’s updated SOPs [April 19, 2017], “Report Review Policies and Procedures for CDFI Program Awards in AMIS,” AMIS will allow awardee portfolios to be managed fully electronically and will have the ability to automatically notify awardees of delinquent reports.
beyond the one-year period after the final annual report was due and 2 awards remained open at the conclusion of our audit.\textsuperscript{22} The CDFI Fund’s SOPs in effect from FY 2006 through FY 2012 did not specify a timeline for award closeout after the conclusion of an awardee’s period of performance. Moreover, the SOPs stated that “staff resource limitations at the CDFI Fund do not permit the (closeout process) to be conducted routinely, as it should be, for each award made under this program.”

In April 2017, CDFI Fund updated its SOP that requires CCME to make a compliance determination within 60 days of receipt of a complete annual report submitted by the required deadline or within 90 days of receipt of a complete annual report submitted earlier than the required deadline. Furthermore, the SOP was updated to require that awards “be closed out within 90 days of the last performance period due date” to reflect OMB’s \textit{Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards} (Uniform Guidance).\textsuperscript{23}

\textbf{Monitoring Progress Toward CDFI Certification}

As noted in the finding above, 39 percent of all non-certified TA awardees did not achieve certification during their performance periods as required by their respective \textit{Assistance Agreement(s)}. The CDFI Fund’s SOP for FY 2006 through FY 2012 did not require monitoring of TA awardees’ progress toward achieving CDFI certification. Furthermore, the \textit{Assistance Agreement(s)} did not require TA awardees to submit data demonstrating progress toward certification goals.

According to CCME staff, CDFI certification progress was not evaluated until after the end of the performance period to allow TA

\textsuperscript{22} One of the two awardees not closed out at the time of our audit submitted its final report in June of 2014 while the other was found non-compliant for not submitting its final report (which was due in September 2014).

\textsuperscript{23} 2 CFR part 200.343, \textit{Closeout}, section (g), “…the Federal awarding agency or pass-through entity should complete all closeout actions for Federal awards no later than one year after receipt and acceptance of all required final reports.” Uniform Guidance became applicable for Federal awards made after December 25, 2014, and therefore, was not applicable for Federal awards in our sample.
awardees the full performance period to utilize their awards. However, early monitoring of progress is critical to early detection of issues preventing CDFI certification and to ensure the proper use of awards. As noted above, GAO’s *Standards for Internal Control* state that management should design control activities to achieve objectives and respond to risks, including activities to monitor performance measures and indicators. Documenting such monitoring control activities is a tenet of internal control as described in GAO’s *Standards for Internal Control*.

**Recommendations**

We recommend that the Director of the CDFI Fund do the following:

5. Establish in SOPs a reasonable timeline for follow up on TA awardees’ delinquent annual reports.

**Management Response**

CDFI Fund management concurred with this recommendation. Management noted that, beginning in FY 2017, the CDFI Fund operationalized compliance SOPs within AMIS to enable CCME to follow up on delinquent annual reports in a reasonable timeframe. Additionally, CCME implemented system requirements in AMIS that send automated report due date reminders and overdue report notices to awardees. These enhancements help reduce the number of delinquent reports and expedite follow up.

**OIG Comment**

Management’s corrective actions, if implemented as stated, meet the intent of our recommendation. That said, we encourage management to update its compliance SOPs to incorporate additional timeframes for CCME staff to follow up directly with recipients on reports that remain delinquent after receiving AMIS notifications.
6. Reassess information technology capabilities to determine if system users can be automatically alerted of delinquent reports.

Management Response

CDFI Fund management concurred with this recommendation. Management noted that, beginning in FY 2017, the CDFI Fund implemented system requirements in AMIS that send automated report due date reminders and overdue report notices to awardees. Additionally, AMIS contains all report submission deadlines, actual report submission dates, and report review statuses.

OIG Comment

Management’s corrective actions, if implemented as stated, meet the intent of our recommendation.

7. Assess CCME staffing levels to ensure sufficient compliance monitoring is performed for making awardee compliance determinations and closing out awards within the timelines established in the updated SOP.

Management Response

CDFI Fund management concurred with this recommendation and noted that senior management assesses the need for staffing on an on-going basis subject to budget constraints. Similar to CDFI Certification, the implementation of AMIS beginning in FY 2016 automated CDFI compliance monitoring practices. This contributed to improving CCME staff efficiency in making compliance determinations within timelines established in SOPs. AMIS provides reports on status of compliance monitoring to assist management in allocating staff resources to meet established timelines.
OIG Comment

Management’s corrective actions, if implemented as stated, meet the intent of our recommendation.

8. Ensure the closeout of all 315 TA awards within the FY 2006 through FY 2012 scope of this report.

Management Response

CDFI Fund management concurred with this recommendation and noted that all 315 TA awards within the FY 2006 through FY 2012 scope of this audit report are closed out.

OIG Comment

Management’s corrective action, if implemented as stated, meets the intent of our recommendation.

9. Establish and implement procedures that require monitoring of TA awardees’ progress toward meeting CDFI certification requirements prior to submitting a CDFI Certification Application.

Management Response

CDFI Fund management concurred with this recommendation. Management noted that in FY 2017, the CDFI Fund added a performance goal in the Assistance Agreement that requires recipients to submit a CDFI Certification Application one year prior to the requirement for the recipient to become a certified CDFI. Further, awardee progress towards meeting the CDFI certification requirement is actively monitored in AMIS. Management further responded that CCME is also proactively pursuing other mechanisms to ensure awardees meet the CDFI certification requirement. CCME worked with the CDFI/NACA [Native American CDFI Fund Assistance] Program Team to align the CDFI/NACA Application with the certification policy to assist the CDFI/NACA Program team in assessing an applicant’s
ability to successfully meet the certification requirement. CCME also conducts monthly certification conference calls to provide technical assistance to organizations seeking certification as a CDFI.

**OIG Comment**

Management’s corrective actions, if implemented as stated, meet the intent of our recommendation.

* * * * * *

We appreciate the cooperation and courtesies extended to our staff during the audit. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided as appendix 4. If you have any questions, you may contact me at (202) 927-5784 or Nick Slonka, Audit Manager at (202) 927-8772.

/s/
Donna Joseph
Deputy Assistant Inspector General for Audit
In December 2014, we initiated an audit of the Community Development Financial Institutions (CDFI) Fund’s administration of its Technical Assistance (TA) awards. The objective of our audit was to determine whether awardees met the CDFI Fund’s certification requirements as outlined in their TA Assistance Agreements. As part of our audit, we also assessed CDFI Fund’s monitoring activities for ensuring awardees’ compliance.

The scope of our audit comprised TA awards made by the CDFI Fund under the CDFI Program from fiscal years (FY) 2006 through FY 2012 with exception of TA awards made under the Native American Initiative Program. This comprised a population of 315 TA awards totaling $26,862,063 of awarded funds. Of this amount, $17,523,746 was awarded to 210 of the 315 awardees that had already achieved certification at the time of award. Therefore, these awardees were excluded from our testing of CDFI certification. To determine whether awardees met CDFI certification requirements in accordance with their Assistance Agreement, we tested all 105 non-certified awardees (or 100 percent) with awards totaling $9,338,317.

To assess the CDFI Fund’s monitoring activities for ensuring awardees’ compliance with their Assistance Agreement(s), we statistically selected a random sample of 75 of the 315 TA awards, totaling $6,702,518 (or 25 percent) of award amounts. The selection was based on a 90 percent confidence level with +/- 5 percent precision and a 10 percent expected error rate. This representative sample was tested to assess compliance monitoring activities specific to the review of CDFI Certification Application(s), annual reporting requirements, and award close out. Specifically, we are confident that the results of our testing of the following control attributes for our sample were accurate and support our overall conclusion that the CDFI Fund’s monitoring activities were insufficient as described in finding 2:

- 78.7 percent of awardees with 767 annual reports due were delinquent (sampling error of +/- 7.1 percent);
- 44.0 percent of awardees with 108 delinquent annual reports were not notified by the CDFI Fund within the 45 day follow up window (sampling error of +/- 8.6 percent);
Appendix 1
Objectives, Scope, and Methodology

- 13.3 percent of awardees with 33 of delinquent annual reports were never notified by the CDFI Fund (sampling error of +/- 6.0 percent);
- 70.7 percent of awardees with 891 annual reports submitted were not reviewed timely (i.e. 90 days of receipt) (sampling error of +/- 7.9 percent); and
- 25.3 percent of awardees with 245 annual reports due were not reviewed for timely award closeout (sampling error of +/- 7.6 percent).

To meet our audit objectives, we performed the following steps:

- Reviewed applicable laws, regulations, operating policies and procedures, audit reports, and other supporting documentation, to include:
  
  o Riegle Community Development and Regulatory Improvement Act of 1994;
  
  o Office of Management and Budget’s (OMB) Circular No. A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (November 1993, as further amended September 1999);
  
  o OMB’s *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (December 2014);
  
  
  o Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1; November 1999) superseded by *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014);
Appendix 1
Objectives, Scope, and Methodology

- Department of the Treasury (Treasury) Directive (TD) 80-05, Records and Information Management Program, (June 26, 2002) superseded by TD 80-05, Records and Information Management Program (January 31, 2018);

- Treasury, Records and Information Management Manual (TD Publication 80-5; June 2002);

- CDFI Fund’s Community Development Financial Institutions Program and Native Initiatives Standard Operating Procedures for FY 2006 through FY 2014;

- CDFI Fund’s Compliance Monitoring and Evaluation Unit: Report Review Policies and Procedures for CDFI Program Awards in AMIS (effective 2017);

- Notice of Funds Availability Inviting Applications for the Community Development Financial Institutions Program for FY 2006 through FY 2012 funding rounds;

- CDFI Program Award Books for FY 2006 through FY 2012;

- Lists of Certified CDFIs, FY 2008 through FY 2014;

- TA awardees’ Assistance Agreements and award files;

- documentation pertaining to the CDFI Fund’s compliance monitoring duties, including awardee Annual Reports and files, Reports Monitoring System (RMS) screenshots, Noncompliance Memo Replacement forms, MyCDFI system certification data, findings of default letters, and explanations of non-compliance; and

- correspondence between CDFI Fund and awardees.

- Interviewed officials and key personnel within the CDFI Fund’s organizational units, to include (1) CDFI Program, (2) Financial Strategies and Research, and (3) Certification, Compliance, Monitoring and Evaluation.

- Reviewed RMS for dates and internal notes, Lists of Certified CDFIs, CCME’s compliance determinations, and certification
review documentation and compared the RMS data to requirements in awardees’ *Assistance Agreements* and CDFI Fund’s SOPs.

We performed our fieldwork at the CDFI Fund and the Office of Inspector General in Washington, D.C., from December 2014 through June 2019.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
May 29, 2020

Ms. Donna Joseph
Deputy Assistant Inspector General for Audit
Office of the Inspector General
U.S. Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

RE: CDFI Fund Management Response to Recommendations in Audit Report – Improvements Are Needed in CDFI Fund’s Administration of Technical Assistance

Dear Ms. Joseph,

Thank you for the opportunity to review and comment on the Office of the Inspector General’s (OIG) formal draft audit report on the Community Development Financial Institutions (CDFI) Fund’s Technical Assistance (TA) awards made from fiscal year (FY) 2006 through FY 2012. The objective of the audit was to determine whether awardees met the CDFI Fund’s certification requirement as outlined in their TA Assistance Agreement(s). While the audit review process was being conducted, the CDFI Fund proactively implemented improvements to the administration of TA awards and related information technology systems that address the OIG recommendations, as detailed in our responses below. Below is the CDFI Fund management response to the OIG recommendations listed in the audit report – Improvements Are Needed in CDFI Fund’s Administration of Technical Assistance.

OIG Recommendation 1

Consider requiring a reasonable CDFI Certification Application deadline in the Assistance Agreement(s) that will allow CCME staff sufficient review time to make certification decisions within the 90 calendar day timeline outlined in the CDFI Certification Procedures.
Management Response

The CDFI Fund concurs with this recommendation. In FY 2017, the CDFI Fund added a performance goal in the Assistance Agreement that requires Technical Assistance (TA) Awardees to submit a CDFI Certification Application one year prior to the requirement for the Awardee to become a certified CDFI. This enhancement, along with the implementation of the Award Management Information System (AMIS) in FY 2016, which provides the CDFI Fund with a standardized, automated, and transparent system, allows Certification, Compliance Monitoring and Evaluation (CCME) staff to review certification applications and make certification determinations in accordance with the timeframes established in CCME’s policies and procedures.

OIG Recommendation 2

Reassess CCME staff resources necessary to review CDFI Certification Application(s) and make certification decisions within the 90 calendar day timeline outlined in the CDFI Certification Procedures.

Management Response

The CDFI Fund concurs with this recommendation. CDFI Fund senior management assesses the need for staffing on an on-going basis subject to budget constraints. As discussed above, the implementation of AMIS also enables the CDFI Fund to monitor the status of CDFI Certification Applications and allocate resources to meet the timeframes stated in CCME’s Standard Operating Procedures (SOPs).

OIG Recommendation 3

Reassess the significance given to TA awardees’ non-compliance with the CDFI certification requirement of the Assistance Agreement(s) when making a determination of default or no default since one of several goals is for a non-certified entity to build capacity and become CDFI certified.

Management Response

The CDFI Fund concurs with this recommendation. In FY 2015, the CDFI Fund implemented a process to assess the severity of an awardee’s noncompliance when making a determination of default or no default. This process leverages the Noncompliance Memo Replacement (NCMR), a risk assessment tool that takes into account a series of set factors, such as an awardee’s past compliance history, to ensure compliance determinations are made in a consistent manner. In FY 2018, the CDFI Fund further enhanced its process by increasing the level of severity given to TA awardees that are noncompliant with the CDFI certification requirement of the Assistance Agreement by finding the awardee in default and giving the awardee an opportunity to cure.
OIG Recommendation 4

Ensure that CCME staff fully document the reasons for determinations of default or no default when TA awardees’ are non-compliant with their Assistance Agreement(s).

Management Response

The CDFI Fund concurs with this recommendation. Beginning in FY 2017, CCME enhanced policies and procedures to ensure compliance determinations are fully documented via the NCMR process described above. The CCME Program Manager approves determinations that find awardees in default. CCME then communicates determinations to awardees via formal written notice and updates the final compliance statuses within AMIS to promote transparency. Additionally, CCME conducts annual trainings for Portfolio Managers and performs quality assurance reviews for completeness and consistency.

OIG Recommendation 5

Establish in SOPs a reasonable timeline for follow up on TA awardees’ delinquent annual reports.

Management Response

The CDFI Fund concurs with this recommendation. Beginning in FY 2017, the CDFI Fund operationalized compliance SOPs within AMIS to enable CCME to follow up on delinquent annual reports in a reasonable timeframe. Additionally, CCME implemented system requirements in AMIS that send automated report due date reminders and overdue report notices to awardees. These enhancements help reduce the number of delinquent reports and expedite follow up.

OIG Recommendation 6

Reassess information technology capabilities to determine if system users can be automatically alerted of delinquent reports.

Management Response

The CDFI Fund concurs with this recommendation. Beginning in FY 2017, the CDFI Fund implemented system requirements in AMIS that send automated report due date reminders and overdue report notices to awardees. Additionally, AMIS contains all report submission deadlines, actual report submission dates, and report review statuses.

OIG Recommendation 7
Assess CCME staffing levels to ensure sufficient compliance monitoring is performed for making awardee compliance determinations and closing out awards within the timelines established in the updated SOP.

Management Response

The CDFI Fund concurs with this recommendation. CDFI Fund senior management assesses the need for staffing on an on-going basis subject to budget constraints. Similar to CDFI Certification, the implementation of AMIS beginning in FY 2016 automated CDFI compliance monitoring practices. This contributed to improving CCME staff efficiency in making compliance determinations within timelines established in SOPs. AMIS provides reports on status of compliance monitoring to assist management in allocating staff resources to meet established timelines.

OIG Recommendation 8

Ensure the closeout of all 315 TA awards within the FY 2006 through FY 2012 scope of this report.

Management Response

The CDFI Fund concurs with this recommendation. All 315 TA awards within the FY 2006 through FY 2012 scope of this audit report are closed out.

OIG Recommendation 9

Establish and implement procedures that require monitoring of TA awardees’ progress toward meeting CDFI certification requirements prior to submitting a CDFI Certification Application.

Management Response

The CDFI Fund concurs with this recommendation. As discussed above, in FY 2017, the CDFI Fund added a performance goal in the Assistance Agreement that requires Recipients to submit a CDFI Certification Application one year prior to the requirement for the Recipient to become a certified CDFI. Awardee progress towards meeting the CDFI certification requirement is actively monitored in AMIS.

CCME is also proactively pursuing other mechanisms to ensure awardees meet the CDFI certification requirement. CCME worked with the CDFI/NACA Program Team to align the CDFI/NACA Application with the certification policy to assist the CDFI/NACA Program team in assessing an applicant’s ability to successfully meet the certification requirement. CCME also conducts monthly certification conference calls to provide technical assistance to organizations seeking certification as a CDFI.
The CDFI Fund appreciates all the work of your staff, and the opportunity to review and provide responses to the recommendations in the report. If you have any questions, please contact Denise Noel, Legal Counsel, at 202.653.0351 or noeld@cdfi.trea.gov.

Sincerely,

Jodie L. Harris
Director
CDFI Fund
Appendix 3
Major Contributors to This Report

Nick Slonka, Audit Manager
Kirk Solomon, Auditor
Herb Addy, Referencer
Appendix 4
Report Distribution

Department of the Treasury

Secretary
Deputy Secretary
Under Secretary for Domestic Finance
Assistant Secretary for Financial Institutions
Deputy Assistant Secretary for Community and Economic Development
Office of Strategic Planning and Performance Improvement
Office of the Deputy Chief Financial Officer, Risk and Control Group

Community Development Financial Institutions Fund

Director
Deputy Director

Office of Management and Budget

OIG Budget Examiner

United States Senate

Committee on Banking, Housing, and Urban Affairs
Committee on Finance
Committee on Homeland Security and Governmental Affairs

United States House of Representatives

Committee on Oversight and Reform
Financial Services Committee
Treasury OIG Website
Access Treasury OIG reports and other information online:
http://www.treasury.gov/about/organizational-structure/ig/Pages/default.aspx

Report Waste, Fraud, and Abuse
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