

**FINANCIAL MANAGEMENT/
COMPLIANCE WITH THE FEDERAL FINANCIAL
MANAGEMENT IMPROVEMENT ACT**

**Community Development
Financial Institutions Fund
Post-Award Administration Process**

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Abbreviations

BEA	Bank Enterprise Award
CDFI	Community Development Financial Institutions
CFR	Code of Federal Regulations
CME	Compliance Monitoring & Evaluation Unit
CMU	Compliance Monitoring Unit
FY	Fiscal Year
GAO	U.S. General Accounting Office
HUD	Housing and Urban Development (Department of)
MCF	Monitoring Control Form
NACTA	Native American CDFI Technical Assistance
NCUA	National Credit Union Administration
NMTC	New Markets Tax Credit
NOFA	Notice of Funds Availability
OIG	Office of Inspector General
OMB	Office of Management and Budget
RMD	Reports Monitoring Database
RMS	Report Monitoring System
SECA	Small and Emerging CDFI Assistance
U.S.	United States
VA	Veterans Affairs (Department of)

*The Department of the Treasury
Office of Inspector General*

September 24, 2002

Tony T. Brown
Director
Community Development Financial Institutions Fund

The Community Development Financial Institutions (CDFI) Fund's mission is to promote access to capital and local economic growth by directly investing in and supporting CDFIs, and by expanding financial service organizations' lending, investment, and services within underserved markets.

We conducted an audit with the objective of determining whether the Fund's post-award administration process was effective to ensure that CDFI award recipients were carrying out their activities in accordance with their assistance agreements. We conducted our field work for this audit, which was part of the Office of Inspector General (OIG) Annual Plan for Fiscal Year (FY) 2001, at the CDFI Fund in Washington, D.C. As part of a collaborative effort between our Offices of Audit and Investigations, teams of auditors and investigators also performed onsite visits to 48 CDFIs around the country. The audit covered a sample of 54 CDFI Program awards, totaling \$60.8 million, which was 28 percent of the total CDFI Program dollars awarded by the Fund during FYs 1996-1999. See Appendix 1 for a more-detailed description of the audit objective, scope, and methodology.

Results in Brief

We concluded that, in general, the CDFI Fund's post-award administration process is effective in ensuring that CDFI award recipients are carrying out their activities in accordance with their assistance agreements. The CDFI Fund has strengthened its post-award administration process over the years. During FY 1998, for example, the Fund developed written monitoring procedures, and during FY 1999, a portfolio-monitoring database system and a report monitoring system.¹ During FY 2000, the Fund established the Compliance Monitoring & Evaluation Unit (CME)² to monitor CDFI performance requirements and make recommendations to the newly-formed Portfolio Committee for review.

Actions have continued, as a new Director was appointed in August 2001 and the Fund was reorganized during January and April 2002,³ in part to address new responsibilities without a significant change in the Fund's budget.

Our report contains ten findings that discuss additional opportunities for enhancement of the Fund's post-award administration. Issues include decreasing the amount of time required to disburse funds, tracking CDFI compliance with reporting requirements, assessing compliance with assistance agreements in a timely manner, enhancing data analysis and documentation, and increasing accountability over financial assistance. The report contains sixteen recommendations addressed to the Director of the Fund.

¹ The Reports Monitoring Database (RMD), an intranet-based reporting and compliance tracking system, evolved from these earlier Microsoft Outlook systems. The RMD became fully functional during March 2002. Because the issues identified pertain to the system in existence at the time that we began our review, we refer to the Report Monitoring System in this report, to differentiate from the current RMD, which we did not review.

² This unit was called the Compliance Monitoring Unit (CMU) when it was established. Because the name change during August 2002 did not involve a change in responsibilities, we refer to CME rather than CMU in this report.

³ Please note that, unless otherwise indicated, this report describes roles and responsibilities as they were prior to the reorganizations.

During early August 2002, we discussed our findings and recommendations with CDFI Fund management, who expressed the Fund's general concurrence with the findings and recommendations and provided information on actions taken or planned to enhance controls and improve operations. These actions are summarized under the individual *Finding* sections of this report. A formal exit conference with the Director and Fund management was held on August 21, 2002. The Director's comments to our draft, dated September 17, 2002, were incorporated into the body of this report, as appropriate, and are included in their entirety in Appendix 2.

Background

The Community Development Banking and Financial Institutions Act of 1994⁴ established the CDFI Fund as a wholly-owned government corporation. As mentioned above, the Fund's mission is to promote access to capital and local economic growth by directly investing in and supporting CDFIs, and by expanding financial service organizations' lending, investment, and services within underserved markets. Its vision is an America in which all people have access to capital and financial services.

CDFIs include both private for-profit and not-for-profit financial institutions that have community development as their primary mission and that have received certification from the Fund. They include community development banks and credit unions, not-for-profit loan funds, microenterprise loan funds, and community development venture capital funds.

The CDFI Fund administers several initiatives, including the CDFI Program with its new Native American CDFI Technical Assistance (NACTA) component,⁵ the Bank Enterprise Award (BEA) Program,⁶

⁴ This legislation is Title I, Subtitle A, of the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103-325, September 23, 1994).

⁵ The NACTA Program focuses on increasing access to capital in Native American communities.

⁶ The BEA Program provides monetary incentives for banks and thrifts to expand investments in CDFIs and/or increase lending, investments, and service activities in distressed communities.

and the New Markets Tax Credit (NMTC) Program.⁷ These programs are all designed to facilitate the flow of lending and investment capital into distressed communities and to individuals who have been unable to take full advantage of the financial services industry.

When we began our review, the CDFI Program, which was our focus, consisted of the Core, Intermediary, and Technical Assistance⁸ Components. The Core Component provides financial assistance in the form of grants, loans, equity investments, shares, or deposits to certified CDFIs. The Intermediary Component provides the same type of assistance to CDFIs that, in turn, provide financing primarily to other CDFIs and/or support the formation of CDFIs. Both Core and Intermediary award recipients are required to obtain, from non-Federal sources, matching funds comparable in form and amount to the assistance they receive from the Fund. The Technical Assistance Component consists of grants provided to certified CDFIs and those in the process of becoming certified. These grants are used to build organizational capacity and to enhance an organization's ability to serve its target market.

During FYs 1996-1999, the period from which we selected a sample of CDFI awards for review, the Fund made 370 CDFI Program awards totaling \$217 million. The 143 CDFI Program awards for FY 2000 totaled \$80.4 million, and the 140 awards for FY 2001 totaled \$63.7 million.

Applicants are selected for award based, in part, on a 5-year business plan that projects the impact of planned activities within an economically distressed and underserved community. After

⁷ The NMTC Program, designed to attract private sector investment in businesses located in low-income communities, provides a credit against Federal income taxes for qualified investments in designated Community Development Entities.

⁸ On November 27, 2000, the Fund published a Notice of Funds Availability in the Federal Register, launching its new Small and Emerging CDFI Assistance (SECA) Component of the CDFI Program. The SECA Component, which replaced the Technical Assistance Component, allows applicants to apply either for a technical assistance grant (similar to the function of the Technical Assistance Component) or for a combination of technical and financial assistance.

selecting award recipients, the Fund negotiates performance goals, measures, and benchmarks with each one. Each recipient then enters into an assistance agreement with the Fund.

An assistance agreement sets forth the specific terms and conditions of an award, and includes components such as authorized uses of award funds, evidence of matching funds, reports and reporting schedules, and sanctions for noncompliance. Each assistance agreement also includes specific performance requirements, which are stated in various forms, such as financial and managerial soundness covenants, and performance goals and measures.

The Fund monitors performance for the duration of the assistance agreement, and conducts evaluations using the performance schedule delineated in the assistance agreement.

At the time of our review, the Fund's Awards Management Unit oversaw compliance with reporting requirements, in part by monitoring receipt of all required financial, performance, or other reports from award recipients and by ensuring that reports included the required data. The Unit was also tasked with notifying recipients that were delinquent in submitting required reports.

The Fund's CME was established during FY 2000 to enforce the Fund's performance requirements. Its staff members determine whether CDFIs are in compliance with their assistance agreements. An award recipient determined to be in compliance has submitted its report on time, and has met the financial soundness covenants, the performance goals and measures, and other requirements of its assistance agreement.

An award recipient may be determined to be in noncompliance if it has not submitted a report by its due date, and/or if it has not met the financial soundness covenants, the performance goals and measures, or other requirements. When an award recipient submits a report that includes data indicating that it has not met all of its financial soundness covenants, or its performance goals and measures, the recipient must provide an explanation of why

it is not in compliance, what it is doing to reach compliance, and when it expects to be in compliance.

The consequences of noncompliance may be no further disbursements on current awards, no closing or disbursements on future awards, a reduction in points on future applications for awards from the Fund, and/or being prohibited from participating in future funding rounds.

The CME works with the Fund's program staff and the Portfolio Committee to review all cases of noncompliance and determine appropriate courses of action. The Portfolio Committee, also established during FY 2000, is responsible for overseeing both noncompliance issues and the Fund's loan and equity investment portfolios. Currently, it convenes at least monthly and consists of the Special Assistant, Depository Institutions Manager, Financial Manager, Legal Counsel, and the Program Operations Manager. CME staff maintains a list of noncompliant award recipients to closely monitor progress in reestablishing compliance with the terms of the assistance agreements.

Findings and Recommendations

Finding 1 The Fund's Post-Award Processing Time May Affect CDFI Ability To Provide Community Development Services

Post-award processing delays by the Fund may hinder a CDFI's ability to provide community development services. The Fund should significantly reduce the amount of time that it has taken to release funds to award recipients, which was an average of more than 300 days for the awards in our sample. Many CDFIs are small or recently established, and may have difficulty raising the capital needed to meet the demands for their products and services.

Under the CDFI Program, the Fund provides CDFIs with financial and technical assistance to enhance their ability to make loans and investments, and provide services for the benefit of designated

investment areas, targeted populations, or both. Timely receipt of a Fund award enhances a CDFI's ability to achieve its goals and objectives.

The post-award process begins when a Notice of Award is issued by the Fund, and agreed to and accepted by a CDFI. By signing the Notice of Award and returning it to the Fund, the CDFI signifies its acceptance of the general terms and conditions outlined. The Fund and the CDFI then execute an assistance agreement, which contains the specific terms and conditions for the award, including negotiated performance measures and financial soundness covenants (where applicable).

The disbursement process begins once an assistance agreement has been executed between the Fund and a CDFI. The Fund makes a financial or technical assistance disbursement, via electronic funds transfer, once a CDFI has satisfied all conditions precedent to receiving such assistance. Disbursement of financial assistance under the Core Component is contingent, in part, upon the CDFI: (1) having matching funds in hand; (2) having complied with the requirements of any prior award(s); (3) delivering to the Fund a signed promissory note when a loan is to be awarded; and (4) providing stockholder documentation when an equity investment is to be made.

Our analysis of 54 awards determined that it took the Fund an average of 308 days to make a disbursement once a CDFI was approved for an award. The length of time it took the Fund to negotiate an assistance agreement following the Notice of Award averaged 263 days, with a range from 111 days to 566 days. Following the execution of the assistance agreement, it took the Fund an additional 45 days, on average, with a range of 1 to 403 days, to make the initial disbursement.

Reasons given by the Fund for the amount of time required to release award monies included, among many, problems experienced by CDFIs in securing matching funds and delays in negotiating the performance goals and measures in the assistance agreements.

While our analysis may not be indicative of all awards approved by the Fund, the length of time it takes to disburse funds is an issue that has not gone unnoticed. During our onsite visits, almost half of the award recipients stated that the Fund should streamline its award closing and disbursement process. Some CDFI officials felt that the process was too onerous and hindered the ability of their CDFIs to provide community development services and to meet the commitments made in the performance goals and measures.

The Director of the Fund has acknowledged that the current award process should be improved. During FY 2003 appropriations hearings, for example, the Director expressed his intention to streamline the Fund's approval and disbursement process. Once implemented, the Director hopes that planned changes will, among other things, reduce the amount of time required for the award process, including the time used for application reviews, awards obligations, and disbursement of funds.

Recommendation

1. The Director should ensure that the Fund's post-award process is streamlined to reduce the length of time that it takes to execute a CDFI's assistance agreement and to disburse funds.

Management Response

The Fund has taken steps to reduce the length of time that it takes to disburse funds. These steps include Program and CME staff performing a compliance and matching funds analysis, including a review of the Reports Monitoring Database (RMD),⁹ beginning during June 2002 for the FY 2001 awards. The Fund is also revising how it processes assistance agreements.

⁹ The RMD tracks when a report is due, when it is received by Awards Management, when Awards Management forwards the report to CME, and when CME returns the report to Awards Management. The RMD also reflects a CDFI's compliance status.

For example, beginning with the FY 2002 awards, the Fund is streamlining awards that are only for technical assistance by sending the assistance agreements with the Notices of Award.

In addition, Awards Management instituted a formalized practice of completing its disbursement processing (barring any compliance issues) within 3-5 business days after receipt of disbursement documents from Legal. To address the issue of CDFI noncompliance, the Fund is considering ways to convey the serious ramifications of noncompliance, including informing potential applicants through the Notice of Funds Availability (NOFA) that applications from noncompliant awardees will be rejected.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendation.

Finding 2 The Fund Should Enhance Its Report Monitoring System

When we began our review, the CDFI Fund was unable to provide aggregate program results data that would allow us to fully assess how well it had been managing its awards monitoring program. The Fund's Report Monitoring System (RMS), which was used at that time to track required CDFI reports,¹⁰ contained some incomplete program documentation. In addition, the Awards Management Unit did not maintain the RMS to reflect the current status of the Fund's report review, because the Monitoring Control Form was not fully completed. As a result, the RMS database was not updated to properly reflect the current status of CDFI reports. The Fund's awards monitoring program is weakened by the lack of data to assess a CDFI's compliance with its reporting requirements. The lack of data also makes it difficult for the Fund to adequately manage the CDFI Program.

¹⁰ Please see Footnote 1 on Page 4.

The *Standards for Internal Control in the Federal Government*¹¹ issued by the U.S. General Accounting Office (GAO) require agencies to document all aspects of transactions and other significant events. Documentation should be complete and accurate, as well as useful to managers in controlling their operations. Thus, sound business practices means that performance measurement data should be properly recorded and accounted for to permit preparation of reliable and complete program results information.

At the time of our review, CDFI award recipients were required to submit semiannual¹² and annual reports, and audited financial statements. Once an assistance agreement had been executed between the Fund and a CDFI, the Awards Management Unit entered the required report data into the RMS, which was being used to track the receipt of all reports. Prior to the due date of a report, the Awards Management Unit prepared a Monitoring Control Form, which was the instrument used by the Fund at that time to record reporting compliance and program compliance.

The Awards Management Unit completed the reporting compliance section of the Monitoring Control Form before forwarding the form and the accompanying report to the CME. After completing the program performance review, the CME entered the appropriate certifications and notes in the *Performance Compliance Section*, signed the form, and returned the entire package to the Awards Management Unit. If applicable, the CME included an assessment of the CDFI's progress in meeting the program performance goals delineated in the assistance agreement. The Awards Management Unit then extracted information from the Monitoring Control Form for entry into the RMS.

¹¹ The *Standards for Internal Control in the Federal Government*, issued by the Comptroller General during November 1999, may be found on the GAO web site at <http://www.gao.gov> by searching under **Reports** for AIMD-00-21.3.1.

¹² Revised CDFI Program regulations, at 12 CFR 1805, dated November 1, 1999, reduced CDFI reporting burden by replacing quarterly reporting requirements with semiannual reporting requirements.

When we began our review, the Fund was not able to provide us with such basic information as the number of reports due to the Fund, the number of reports CDFIs had submitted, the number of reports submitted on time, or the number of reports submitted late. Furthermore, we found that the RMS database was not complete and could not be used to generate a list of CDFIs contacted once their reports were overdue. Reporting data on 34 percent¹³ of the reports we reviewed had not been entered into the database.

We examined the RMS to extract reporting data on the 54 awards in our sample, and selected 288 reports that were due the Fund between October 31, 1999, and August 31, 2001. We determined that 56 of the 288 reports had not been received, as shown in Table 1. An additional 18 reports had been received by the Fund, but were not made available for our review.

¹³ Percentages presented throughout this report are rounded and are therefore approximate.

For the remaining 214 reports, we compared reporting data captured in the RMS database against the data captured on the Monitoring Control Form. We found the RMS Monitoring Control Form (MCF) data on 72 of the 214 reports (34 percent) was not properly reflected in the RMS database.

Table 1: Results of Review of the Completeness of the Fund’s Report Monitoring System (as of 09-19-01)

CDFI REPORT SUBMITTALS	NUMBER	PERCENT *
<u>Number of Reports Reviewed</u>		
Reports Due To Be Submitted to the Fund	288	
Less:		
Reports Not Received	(56)	19%
Total Number of Reports Fund Received	232	
Less:		
Reports Not Available for Review	(18)	6%
Total Number of Reports Reviewed	<u>214</u>	74%
<u>Results for Reports That Were Reviewed</u>		
MCF Data Completely Reflected in the RMS	142	66%
MCF Data Not Completely Reflected in the RMS		
• No Awards Management Approval Date	45	21%
• No CME Review Date	2	1%
• No Awards Management Approval <u>and</u> No CME Review Dates	<u>25</u>	<u>12%</u>
	<u>72</u>	<u>34%</u>
Total Number of Reports/MCFs Reviewed	<u>214</u>	<u>100%</u>

* Percentages may not sum exactly due to rounding.

The Fund was aware of the limitations of the RMS and was in the process of developing a new report tracking system. Unlike the old tickler file system, maintained in Microsoft Outlook, the Fund was establishing the new system on its intranet, with an automatic notification process to inform CDFIs when reports are due. The former Awards Manager informed us that the new system went online on August 10, 2001, but was not fully operational at the time of our review. At that time, some of the data transferred from the old RMS had not been properly loaded.

Recommendations

2. The Director should ensure implementation of a system that tracks the necessary reporting data. Routine reviews of this system and related files should be performed to enhance the system's ability to track report submittals. The Fund should perform error resolution on the data in the system to improve the timeliness and reliability of the data.
3. The Director should require that periodic reviews be conducted to ensure that the Monitoring Control Forms are properly completed and entered into the Fund's report monitoring system.

Management Response for Recommendations 2 and 3

The Fund has improved report tracking, with reporting requirements for each award now indicated in the RMD. The RMD, which became fully operational in March 2002, includes an automatic e-mail reporting requirement notification function and eliminates the need for a manual Monitoring Control Form. CME reviewers are required to check the reporting requirements for accuracy and make any corrections that are needed. The Fund has instituted additional checks and balances, and is in the process of considering steps to further assess the quality of the data input into the system. Policy for supervisory review of CME work, which would include the accuracy of data entered into the RMD, is being formulated, with expected issuance during January 2003.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendations.

Finding 3 CDFIs Did Not Submit Reports to the Fund in a Timely Manner

Eighty percent of the CDFI reports that we reviewed were not submitted to the Fund by their established due dates. Each of the 48 CDFIs in our sample had at least one report that either had not been submitted at all or had not been submitted in a timely manner. On average, the late reports were submitted to the Fund 79 days after their established due dates.

We found that in many instances there was a lack of follow up on late reports, which we attributed to resource constraints and the resultant lower priority that may have been assigned to ensuring that reports were submitted on time. The fact that enforcement sanctions were not often taken against CDFIs that repeatedly failed to submit reports on time may have further exacerbated the problem. Without adequate monitoring controls over its reporting process, the Fund cannot be assured that CDFIs are in compliance with their assistance agreements.

The CDFI Program assistance agreement outlines reporting requirements, with a CDFI being required to deliver semiannual, annual, and financial statement reports by the due dates set forth in its reporting schedule. Both semiannual and annual reports are generally due within 60 days after the end of each reporting period. Annual financial statement reports are now generally due within 120 days after the end of a CDFI's fiscal year.

Awards Management Policy Memo No. 5, *Awards Monitoring Program*, amended February 10, 2000, directs Awards Management to oversee the reporting compliance aspect of the Fund's report monitoring activity. This includes overseeing the

receipt of all required reports from CDFIs, ensuring that required reports are received in a timely manner, tracking overdue reports, reviewing submissions to determine if adequate information was provided, and reviewing reports to ensure that the data submitted is complete and includes adequate information to determine compliance with reporting requirements.

For the 288 reports in our sample, we reviewed the report files maintained on the 54 awards, and documented whether the Fund had received and reviewed the reports that were due. In those instances where the RMS indicated that a report had been submitted, but the report was not in the CDFI's report file, we requested that Awards Management provide the missing report.

Data available in the Fund’s report files and in the RMS indicated that CDFIs had not submitted 19 percent of the required reports to the Fund as of September 19, 2001, as shown in Table 2. For the remaining reports in our sample, 19 percent were received on time, while the other 61 percent were received by the Fund an average of 79 days after their due dates.

Table 2: Timeliness in CDFI Fund Receipt of CDFI Reports (as of 09-19-01)

Report Submission Time Frame	TYPE OF REPORT SUBMISSION				
	Annual	Semi-annual	Annual Financial Statement	Total Number of Reports	Percent* of Total Reports
Reports Received on Time	17	29	10	56	19%
Reports Not Received	13	32	11	56	19%
Reports Received Late					
1 – 30 Days	22	29	14	65	
31 – 60 Days	9	14	11	34	
61 – 90 Days	7	10	9	26	
91 – 180 Days	8	13	13	34	
181 – 360 Days	2	5	6	13	
Over 360 Days	<u>2</u>	<u>0</u>	<u>2</u>	<u>4</u>	<u>61%</u>
Percent Not Rec./Late	<u>50</u>	<u>71</u>	<u>55</u>	<u>176</u>	<u>80%</u>
Total	<u>80</u>	<u>132</u>	<u>76</u>	<u>288</u>	<u>100%</u>

* Percentages may not sum exactly due to rounding.

Of the 176 reports that were received late, 37 percent (65 reports) were 30 or fewer days late, with a total of 71 percent (125 reports) being received by the 90-day mark.

A more-detailed analysis of the 56 reports identified as not having been received determined that 37 percent were more than 90 days overdue, as shown in Table 3.

Table 3: Number of Days That CDFI Reports Were Overdue (as of 09-19-01)

Number of Days Reports Overdue	TYPE OF REPORT SUBMISSION				
	Annual	Semi-annual	Annual Financial Statement	Total Number of Reports	Percent* of Total Reports
<u>90 Days or Less</u>					
1 – 30 Days	2	25	0	27	48%
31 – 60 Days	1	1	3	5	9%
61 – 90 Days	1	0	2	3	5%
Subtotal (90 Days or Less)	4	26	5	35	63%
<u>Over 90 Days</u>					
91 – 180 Days	4	1	4	9	16%
181 – 360 Days	3	4	0	7	12%
Over 360 Days	<u>2</u>	<u>1</u>	<u>2</u>	<u>5</u>	<u>9%</u>
Subtotal (Over 90 Days)	<u>9</u>	<u>6</u>	<u>6</u>	<u>21</u>	<u>37%</u>
Total	<u>13</u>	<u>32</u>	<u>11</u>	<u>56</u>	<u>100%</u>

* Percentages may not sum exactly due to rounding.

We found little evidence that Awards Management aggressively pursued the submittal of these reports or sanctioned CDFIs that failed to submit reports on time.

The RMS indicated that Fund staff had contacted some of the CDFIs that had overdue reports, but this was generally limited to a telephone call. We understand that some follow-up actions may not have been documented in the RMS, including calls made by summer help. In addition, during our audit field work some of the CDFIs told us that they had been contacted by the Fund about submitting their overdue reports prior to our scheduled onsite visits, but we saw no evidence that these follow-up efforts had been documented in the RMS.

In the context of this Finding, it should be noted that management at a third of the CDFIs we visited stated that they had problems

with the Fund losing or misplacing documents. Several CDFIs advised us that they had submitted reports to the Fund on time, but the Fund had no record of receiving the reports.

During our preliminary review of one CDFI's report file, for example, we found that there were three reports that were each at least 3 months overdue. The CDFI's management stated that the institution had not submitted the 2000 annual report or the 2000 annual financial statement report, but had submitted the semiannual report. Review of the RMS showed that the Fund had contacted the CDFI on July 3, 2001, about the late reports. On July 17, the CDFI informed the Fund that it planned to send the reports that week. Based on the evidence available, the CDFI did not submit the overdue reports to the Fund until November 8, the week prior to our onsite visit.

Reasons given by CDFI management for the failure to submit reports on time included a lack of understanding of the reporting requirements and a lack of focus on completing the reports. Also, because the required performance measurement data had not been tracked from the point of award, CDFI staff had to reconstruct the data.

Another CDFI that we visited also failed to submit its 2000 annual report to the Fund. Reasons cited in this case included a change in CDFI management, incorrect assumptions as to prior filings, confusion as to the requirement for both an annual report and an annual financial statement report, and a lack of notification from the Fund as to an overdue report. We found that the due date shown in the RMS for this annual report was incorrect, so the system did not identify the report as being late.

Further complicating this situation was the fact that the CDFI had just received a closing package for a new award. Our onsite team informed the CDFI of the need to be compliant with the terms of a current agreement prior to any disbursement on a new award.

We brought this matter to the attention of the Fund's Assistant Awards Manager, who advised that no disbursements had been

made on the new award and that the Fund would take action to ensure compliance. However, the inaccuracy in the RMS and the fact that program personnel had not noticed that the 2000 annual report was overdue could have resulted in an inappropriate disbursement.

During our audit, the Fund was in the process of developing an automatic notification system that informs CDFIs when reports are due, but this system was not operational at the time that we completed our field work.

Recommendation

4. The Director should establish controls to ensure that Awards Management specialists monitor report submittals for timeliness. Consideration should be given to developing an automated system that initiates follow-up action on overdue reports, and that provides an acknowledgment for each report received.

Management Response

The RMD, which became fully operational in March 2002, sends CDFIs an e-mail notice 30 days prior to the date reports are due, and when reports are overdue. A CDFI is advised to contact the Fund if it receives a notice that conflicts with its own information. The Fund, which plans to address any issues within three business days after being contacted by a CDFI, is also exploring the possibility of automatic acknowledgment of receipt of reports.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendation.

Finding 4

The Fund Should Assess CDFI Compliance in a Timely Manner

The Fund took an average of 108 days to complete its review of the 142 reports¹⁴ in our sample for which complete information about the review process was available. More specifically, Awards Management took an average of 42 days to accept the reporting data submitted by a CDFI, while CME took an average of 66 days to assess a CDFI's program performance.

A delay in assessing performance may result in a release of funds to CDFIs that are not in compliance with their assistance agreements. For example, two CDFIs in our sample that were not in compliance with their assistance agreements received at least \$1.4 million in additional government funding. In both instances, the CDFIs had submitted annual reports that eventually resulted in *Noncompliant* ratings, but because their reports had not been reviewed in a timely manner, CDFI Fund disbursements were made against new awards.

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, effective June 21, 1995, states that:

The proper stewardship of Federal resources is a fundamental responsibility of agency managers and staff. Federal employees must ensure that government resources are used efficiently and effectively to achieve intended program results. Resources must be used consistent with agency mission, in compliance with law and regulation, and with minimal potential for waste, fraud, and mismanagement.

Accordingly, we believe timely assessment of CDFI reporting is necessary to ensure compliance with assistance agreements.

We reviewed the Monitoring Control Forms that accompanied the 214 reports for the awards in our sample, and found that,

¹⁴ If we also consider an additional 45 reports for which a date was available for program staff review, but not for awards manager approval, the average processing time drops to 93 days from 108 days on a total of 187 reports.

in general terms, a third did not contain evidence of review, a third were reviewed within 30 days at both the Awards Management and the CME review stages of the process, and a third took longer than 30 days to review at each of these stages. Table 4 provides specific information for Awards Management review and approval, while Table 5 provides details of the review by CME.

Table 4: Timeliness of Awards Management Review

Monitoring Control Forms Reviewed	Number of Reports	Percentage of Reports
No Awards Manager Signature/Date	70	33%
<u>Awards Manager Approval</u>		
30 Days or Less	76	35%
More Than 30 Days		
31 – 60 Days	27	13%
61 – 90 Days	23	11%
91 – 180 Days	17	8%
181 – 360 Days	1	0%
Over 360 Days	0	0%
Subtotal Awards Manager Approval	<u>144</u>	<u>67%</u>
Total	<u>214</u>	<u>100%</u>

Note: Amounts of less than 0.5% are rounded to 0% in this Table.

Table 5: Timeliness of CME Review

Monitoring Control Forms Reviewed	Number of Reports	Percentage* of Reports
No Awards Management or CME Signature/Date	72	34%
<u>CME Review</u>		
30 Days or Less	71	33%
More Than 30 Days		
31 – 60 Days	18	8%
61 – 90 Days	17	8%
91 – 180 Days	18	8%
181 – 360 Days	17	8%
Over 360 Days	<u>1</u>	<u>0%</u>
Subtotal CME Review	<u>142</u>	<u>33%</u>
Total	<u>214</u>	<u>100%</u>

* Percentages may not sum exactly due to rounding.

Note: Amounts of less than 0.5% are rounded to 0% in this Table.

Recommendations

5. The Director should establish specific time frames for assessing CDFI compliance with assistance agreements. Periodic reviews should also be performed to verify that these assessments of compliance are being completed as required.

6. The Director should establish additional controls to ensure that disbursements are not made until required reports have been reviewed and the CDFI has been determined to be in compliance with its assistance agreement.

7. The Director should establish compliance controls that include having Fund staff immediately discontinue assistance agreement negotiations on any new awards where a CDFI has not filed required reports in accordance with prior assistance agreements.

Management Response for Recommendations 5, 6, and 7

The Fund has taken significant steps to reduce the time required to assess compliance. For example, as of August 2002, Awards Management no longer reviews incoming reports. Instead, it receives, date-stamps, and forwards reports to the CME, which then has three business days to complete its review and record the initial determination of compliance in the RMD. The time period for CDFIs to provide any additional information that is needed is being limited to ten business days. Policy for supervisory review of CME work, which would include verification that assessments of compliance are being completed as required, is being formulated, with expected issuance during January 2003.

In addition, the Fund will not close a new award or process a request for a disbursement if an awardee has overdue reports or is determined to be noncompliant, with the RMD being used to monitor status. Compliance due diligence is also being performed, and includes consideration of an applicant's compliance status and history. The FY 2002 NOFA outlined the consequences of noncompliance, and in its 2003 NOFA, the Fund expects to inform potential applicants that it will reject applications from prior year awardees that are not compliant with their assistance agreements.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendations.

Finding 5

The Fund's Assessment of CDFI Compliance May Be Enhanced

In general, we found that the Fund was properly assessing CDFI compliance with performance requirements. We did not concur with the Fund's assessment of CDFI performance in a small percentage of the reports that we reviewed, as discussed below.

It should be noted that, while timeliness is an element of CDFI compliance, at the time of our review the Fund was generally not assigning a *Noncompliant* rating to CDFIs that did not submit reports in a timely manner. The analysis presented below focuses on the other elements of compliance, and we do not report late filing as a lack of compliance for purposes of this Finding only. The issue of timeliness in reporting by CDFIs is addressed separately in Finding 3, which indicates that eighty percent of the CDFI reports that we reviewed were not submitted to the Fund by their established due dates.

We believe that there are opportunities for the Fund to strengthen its oversight over its awards monitoring program to ensure that CDFIs are in compliance with their assistance agreements. Failure to properly assess CDFI performance may result in inaccurate compliance ratings on CDFIs that may warrant further attention, or in a CDFI receiving additional funding from the Fund when it has not met the terms of its assistance agreement.

We analyzed 190 reports that the CME had reviewed, and then assessed CDFI compliance with performance requirements. These reports had due dates between October 31, 1999, and July 31, 2001. In performing our analysis, we considered data supporting a CDFI's:

- semiannual reports, to determine compliance with financial soundness covenants/agreements;
- annual reports, to determine if the prescribed performance goals and measures were met; and

- annual financial statement reports, to determine whether any material weaknesses and/or reportable conditions existed.

We reviewed the data provided to the Fund by each CDFI; and, if necessary, obtained additional documentation directly from the CDFI to support financial soundness covenant calculations and performance data. We completed a Monitoring Control Form for each report to record the results of our independent assessment. We then compared our assessment to the Fund’s, which was documented by Fund staff on an original Monitoring Control Form.

Review of the Monitoring Control Forms completed by Fund staff indicated that the CDFIs were in compliance with the performance requirements for 158 of the 190 reports (83 percent), as shown in Table 6. For the remaining 32 reports, the CDFIs were determined not to be in full compliance with the performance requirements. Some of these CDFIs were rated *Compliant/Watch*, which indicates an increased need for monitoring.

Table 6: Results of Fund Review of CDFI Compliance With Performance Requirements

RESULTS OF FUND REVIEW	NUMBER	PERCENT
CDFI Compliant with Performance Requirements	158	83%
CDFI Not in Full Compliance with Performance Requirements		
• Compliant/Watch Rating	7	4%
• Noncompliant Rating	<u>25</u>	<u>13%</u>
	<u>32</u>	<u>17%</u>
Total Number of Reports Reviewed	<u>190</u>	<u>100%</u>

Our independent analysis determined that the CDFIs were in compliance with the performance requirements for 147 of the 190 reports (77 percent), as shown in Table 7. For the remaining 43 reports, the CDFIs were determined not to be in full compliance with the performance requirements.

Table 7: Results of OIG Review of CDFI Compliance With Performance Requirements

RESULTS OF OIG REVIEW	NUMBER	PERCENT
CDFI Compliant with Performance Requirements	147	77%
CDFI Not in Full Compliance with Performance Requirements		
<ul style="list-style-type: none"> • Compliant/Watch Rating • Noncompliant Rating 	11 <u>32</u>	6% <u>17%</u>
	<u>43</u>	<u>23%</u>
Total Number of Reports Reviewed	<u>190</u>	<u>100%</u>

We compared our results to those of the CME, and found that we did not concur with ratings for 14 of the 190 ratings (7 percent), as shown in Table 8.

Table 8: Comparison of CDFI Fund and OIG Ratings of CDFI Compliance with Performance Requirements

RATINGS			NUMBER	PERCENT
Same Ratings:				
Compliant			146	
Compliant/Watch			6	
Noncompliant			<u>24</u>	
			176	93%
Different Ratings:				
<u>Fund Rating</u>	<u>Vs.</u>	<u>OIG Rating</u>		
Compliant		Compliant/Watch	5	
Compliant		Noncompliant	7	
Compliant/Watch		Noncompliant	1	
Noncompliant		Compliant	<u>1</u>	
			<u>14</u>	<u>7%</u>
Total Number of Reports Reviewed			<u>190</u>	<u>100%</u>

Various factors contributed to the differences between the CDFI Fund ratings and the OIG ratings, as highlighted below.

- The Fund assessed three CDFIs as being *Compliant* on their semiannual reports even though the CDFIs did not meet their financial soundness covenant requirements. We concluded that these recipients were *Noncompliant*.
- The Fund assessed a CDFI as being *Compliant* on an annual report even though the CDFI failed to meet a *date-by-which* performance benchmark. On February 2, 2001, the Fund annotated that a goal with four performance measures was *N/A* (not applicable), but offered no further explanation. On that same date, the Fund implemented a policy that automatically removed Technical Assistance CDFIs, deemed

Noncompliant due to a failure to meet a *date-by-which* deadline, from baseline probation without Portfolio Committee review if a CDFI reports that the task has been completed by the time of the annual report submission. We concluded that the CDFI was *Noncompliant* because it had failed to purchase technology equipment by the time of its annual report submission. During the performance of our December 2001 onsite review, the Manager of the CDFI commented that some technology equipment purchases have been delayed pending opening of a second branch.

- The Fund assigned a *Compliant/Watch* rating to a CDFI on its annual financial statement report even though the CDFI failed to submit audited financial statement reports for its parent corporation in accordance with its assistance agreement. We concluded that this CDFI was *Noncompliant*.
- The Fund assigned a *Noncompliant* rating to a CDFI on its semiannual report for the stated reason that the CDFI had not completed its net revenue computations relative to its financial soundness covenants. We found that while the main body of the semiannual report did not contain the net revenue calculations, the information was provided in the accompanying attachments. Thus, we concluded that the CDFI was *Compliant*, because it had submitted the required calculations, which indicated compliance with its performance requirements.

Limited information was contained on the Monitoring Control Form to support how CME staff members reached their conclusions. For example, we found that when a reviewer assigned a *Compliant* rating to a semiannual report, the extent of the work performed and the reasoning for the conclusions were generally not documented on the Monitoring Control Form. For 64 of the 75 semiannual reports that the CME rated *Compliant*, the Monitoring Control Form contained no evidence that the staff analyzed a CDFI's financial soundness calculations or traced the financial data used in the calculations to the financial statements or supporting schedules.

We had indications that in some of these instances the extent of review may have been limited. For example, one CDFI was determined to be *Compliant* based on its semiannual report even though it did not provide any schedules to support its financial soundness covenant calculations. During our onsite review, this CDFI could only provide financial statements, which supported elements of the covenants that were financial statement line-item specific (e.g., net assets, cash and cash equivalents). This CDFI was not able to provide any supporting documentation, calculations, or schedules to support elements that were not line-item specific (e.g., operating expenses for the past four quarters).

We reviewed the 25 reports that led CME to assign *Noncompliant* ratings to CDFIs. We then reviewed the Portfolio Committee meeting minutes for 21 of these reports¹⁵ that had been submitted for its consideration. We documented the determinations made by the Portfolio Committee to address each of the 21 *Noncompliant* ratings. The determinations were as follows.

- 9 - No action taken because the Portfolio Committee accepted the CDFI's explanation or held the CDFI harmless.
- 6 - The CDFI's performance benchmarks were amended.
- 2 - The *Noncompliant* ratings were waived for the current report and the performance benchmarks were amended for future reporting periods.
- 2 - Notices of Proposed Remedies were issued.
- 1 - A letter was sent to the CDFI requesting data showing progress towards meeting its FY 2001 performance benchmarks.
- 1 - The CDFI was to be held harmless if it was able to meet its satisfactory benchmarks for the FY 2001 annual report.

¹⁵ Four of the 25 reports that resulted in a *Noncompliant* rating were not forwarded to the Portfolio Committee by the CME, either because the reports had been processed prior to the establishment of the Portfolio Committee or because subsequent events, such as the receipt of the report that resulted in a *Compliant* rating, made a referral unnecessary.

It took an average of 85 days (ranging from 1 day to 230 days) for the Portfolio Committee to review the reports once CDFIs had been assessed a *Noncompliant* rating.¹⁶ It should be noted that at times the Portfolio Committee reviewed reports for two rating periods for one CDFI, either because the CDFI submitted late reports or because the Fund did not review the initial report in a timely manner.

We also reviewed the obligation and disbursement records of the CDFIs with *Noncompliant* ratings to determine if subsequent disbursements were made by the Fund. In two instances, CDFIs had received new awards, but the additional disbursements totaling \$1.4 million had been made before the Fund reviewed the reports and before the Portfolio Committee met and made decisions regarding corrective action.

Recommendations

8. The Director should take steps to further enhance the Fund's data analysis and documentation of a CDFI's compliance with its assistance agreement.
9. The Director should ensure that periodic reviews are performed of the CME's assessment of CDFI compliance with the assistance agreements, to promote uniformity in the handling of CDFI reports.

Management Response for Recommendations 8 and 9

Data analysis and documentation of compliance have been enhanced in a number of ways. For example, the RMD automatically notes noncompliance due to late reports, and contains compliance information such as actual performance relative to performance goals and measures and to financial soundness covenants. The RMD also has a noncompliance

¹⁶ The computation of the average is based on 16 of the 21 reports forwarded to the Portfolio Committee. The other 5 reports could not be considered in the average because the Monitoring Control Form did not reflect the date when the CME completed its review and referred the matter.

tracking screen, which indicates the level of review and any follow-up action required, and a *Notes* section where the staff enters information on issues and actions for each award.

Currently, all cases of noncompliance are reviewed and recommendations prepared by the CME. The more serious instances of noncompliance are reviewed by the Portfolio Committee, whose recommendations are then reviewed and approved or rejected/revise by both of the Fund's Deputy Directors. Policy for supervisory review of CME work, which over time would serve to promote uniformity in the handling of reports, is being formulated, with expected issuance during January 2003.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendations.

Finding 6

Limited Accountability over Assistance Disbursed to CDFIs

The Fund does not require CDFIs to account for their use of financial assistance and corresponding matching funds and, as a result, we could not consistently determine if the funds were being used in accordance with the terms of the assistance agreements. While the Fund could show us how much financial assistance had been provided to CDFIs in support of agreed-upon performance measures, the Fund could not provide data on specifically how these funds were spent by the CDFIs.

The CDFI Act requires institutions receiving assistance to enhance liquidity to maintain records necessary to disclose the manner in which any assistance is used. Specifically, Section 113 (d), *Audit and Report Requirement*, states in part that:

Organizations that receive assistance from the Fund in accordance with this section shall ... keep such records as may be necessary to disclose the manner in which any assistance under this section is used.

While the CDFI Act requires CDFIs to maintain records to disclose the manner in which any assistance is used, the absence of strong accountability controls could hinder the U.S. government's ability to identify fraud, waste, or mismanagement of financial assistance, if it were to occur.

The assistance agreements executed between the Fund and the CDFIs provide the CDFIs flexibility, allowing them to apply the Fund's resources the way they deem most effective in support of their business plans, as long as they meet the terms and requirements of their assistance agreements. However, this flexibility and the audit limitations established by the Fund in the OMB Circular A-133¹⁷ Compliance Supplement¹⁸ may hinder the ability of Federal auditors or investigators to substantiate a CDFI's use of financial assistance and corresponding matching funds.

Generally, an assistance agreement with the Fund allows a CDFI to use:

- financial assistance to enhance its net worth;
- technical assistance to build its capacity; and
- matching funds to enhance its net worth.

The financial assistance and corresponding matching funds need not be used to make loans, but instead may be used to strengthen a CDFI's financial position, which in turn is intended to support the CDFI's business plan and assist it in achieving its community development objectives.

¹⁷ OMB Circular A-133, revised June 24, 1997, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth standards for obtaining consistency and uniformity among Federal agencies for audits of entities receiving Federal awards.

¹⁸ The Compliance Supplement is based on the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133. The Supplement provides information for auditors to understand CDFI Fund program objectives, procedures, and compliance requirements relevant to the audit, and contains audit objectives and suggested audit procedures for determining compliance with these requirements.

An assistance agreement also puts some restrictions on a CDFI's use of assistance. For example, a CDFI is not allowed to use any assistance or program income to pay any person to influence or attempt to influence any agency, elected official, officer or employee of a State or local government in connection with the making, award, extension, continuation, renewal, amendment, or modification of any State or local government contract, grant, loan or cooperative agreement. However, unless a CDFI uses technical assistance funds and falls under the requirements of the Single Audit Act Amendments of 1996, the likelihood that the Fund would be made aware of any violation is remote, because current audit reporting requirements do not require CDFIs to account for actual costs incurred using financial assistance amounts.

The Single Audit Act Amendments of 1996 require non-Federal entities that expend \$300,000 or more in a year in Federal awards to have a single or program-specific audit conducted for that year. This legislation also provides that Federal agencies shall, with regard to Federal awards provided by the agency, monitor non-Federal entity use of Federal awards.

Generally, the determination of when an award is expended should be based on when the activity related to the award occurs. However, according to the OMB Circular A-133 Compliance Supplement, the CDFI Fund does not require CDFI award recipients to account for the actual cost incurred using financial assistance amounts. It also states that the provisions of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, apply to non-profit CDFI award recipients, but only for costs associated with technical assistance amounts, because the Fund does not require CDFIs to account for actual costs incurred using financial assistance amounts. While the Fund requires CDFIs to account for cost associated with technical assistance amounts, the technical assistance amounts generally totaled \$50,000 or less.

Without necessary controls to safeguard CDFI funds, institutions that receive financial assistance may utilize funds for purposes that are not allowable under the provisions of OMB Circular A-122.

For example, some cost that are unallowable in other Federal grant programs include:

- alcoholic beverages;
- contributions and donations;
- entertainment cost for amusements, diversion, social activities, ceremonials; and
- lobbying costs.

During our audit, we became aware of one CDFI that may have used its financial assistance to incur costs not allowable under OMB Circular A-122, but because records (invoices) were not readily available we were unable to make a determination about these costs.

We found that many CDFIs had not maintained a separate account to track CDFI financial assistance and corresponding matching funds received from the Fund and matching fund source. Instead, the CDFI maintained a single revenue fund, which included CDFI financial assistance, CDFI technical assistance (if applicable), matching funds, and monies received from other sources. Consequently, CDFIs commingled the Fund monies with that received from other sources. As a result, some CDFIs could not accurately account for or report on the available balance or on the expenditures of the CDFI financial assistance and matching funds received.

For example, seven of the twelve CDFIs we reviewed in one region did not maintain separate accounts. Six of the seven CDFIs had received financial assistance totaling \$9.1 million that lost its traceable identity. In contrast, the remaining CDFI received \$50,000 in technical assistance and was required to maintain records supporting the use of these funds.

Recommendations

10. The Director should amend the Fund's assistance agreements to require CDFI award recipients to account separately for the use of funds received as financial assistance.
11. The Director should provide CDFIs with guidance on maintaining separate accounting over financial assistance received from the Fund and establishing corresponding administrative and accounting controls.
12. The Director should initiate action to amend the OMB Circular A-133 Compliance Supplement to reflect revised accountability requirements for financial assistance funds.

Management Response for Recommendations 10, 11, and 12

Beginning with the FY 2003 CDFI Program awards, the Fund will require awardees to deposit all Fund awards in a separate bank account, and stipulate that this account be used only for disbursement of such awards. This requirement will enable the awardee's auditors to ascertain that the use of the Fund's awards is in compliance with the underlying assistance agreement. The Fund's Compliance Supplement to OMB Circular A-133 will be amended to reflect this new requirement.

This requirement for separately accounting for the Fund's awards will be incorporated into the Fund's FY 2003 NOFAs and in the Fund's assistance agreements (starting with the FY 2003 awards). The Fund will provide guidance to awardees outlining the format and content of the information to be provided on an annual basis regarding the use of the Fund's awards.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendations.

Finding 7

Some CDFIs Did Not Maintain Adequate Records

CDFIs did not always maintain sufficient records to support their activities in accordance with OMB Circular A-110¹⁹ record retention requirements. Records to substantiate that performance measures or financial soundness covenants were met, or to support total costs incurred, were not available at the time of our onsite review for 11 of the 48 CDFIs (23 percent) in our sample. Without this data, a CDFI cannot demonstrate its compliance with assistance agreement requirements.

Pursuant to OMB Circular A-110, the Fund requires CDFIs to retain all financial records, supporting documents, statistical records and any other records pertinent to the award for a period of three years after the expiration of their assistance agreements. Specifically, OMB Circular A-110, at Subpart C.53 (b), *Retention and access requirements for records*, states that:

Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of submission of the quarterly or annual financial report, as authorized by the Federal awarding agency.

Four of the CDFIs in our sample did not maintain sufficient records to enable us to verify the quantitative data reported relative to their annual report performance goals and measures. One of these CDFIs did not maintain adequate records to support data relative to the number of loans made for major repairs to housing units, or to support the number of loans to the elderly, disabled, or special needs individuals, or to low-income families. The other three CDFIs attempted to reconstruct the data during our onsite visit, but only two were able to do so.

¹⁹ OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, was revised on November 19, 1993, and further amended on September 30, 1999. The Fund also requires for-profit CDFIs to comply with OMB Circular A-110.

Another six CDFIs did not maintain adequate documentation to support financial soundness calculations relative to their semiannual reporting requirements. For example, one of these CDFIs could not provide documentation for how it computed total operating expenses for the past four quarters in order to calculate its capital liquidity.

The remaining CDFI could not provide records necessary to support \$8,500 in consulting services costs. The CDFI advised us that the costs may have been charged to another account, because the technical assistance funds had not been received in time.

The Fund may find the development of recordkeeping guidance for CDFIs to be beneficial during the Fund's onsite reviews. Guidance would promote accountability and consistency in CDFI record maintenance, and over time could reduce the amount of time Fund staff spends verifying compliance with performance goals and measures. Maintaining appropriate support for goals and measures at the time a report is initially prepared may require little additional time on the part of CDFI staff, who is already identifying the required data and performing calculations. Recreating the documentation and computations at a later date can be very time-consuming, and may not yield the same results, as we found in a number of instances.

Recommendation

13. The Director should require CDFIs to maintain supporting documentation in a format specifically related to each performance goal and measure in their assistance agreements.

Management Response

The Fund's assistance agreements require each CDFI to maintain supporting documentation in a manner that allows the CDFI to demonstrate compliance and allows the Fund to evaluate accomplishments, with semiannual and annual reports being standardized to facilitate this. The Fund is considering various approaches to providing additional guidance

on supporting documentation as part of its regular outreach to CDFIs. Options may include the use of templates, a CDFI conference session on documentation, or the use of video. The Fund expects to develop the additional guidance by January 2003, and also expects that, as the range and number of performance goals and measures is increasingly limited, the types of supporting documentation will vary less among CDFIs.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendation.

Finding 8 Required Annual Financial Reports Not Properly Submitted by Regulated CDFIs

Regulated CDFIs, i.e., institutions that are Federally-insured credit unions and are subject to National Credit Union Administration (NCUA) supervision, did not always submit the required annual financial reports to the Fund. Three of the four regulated CDFIs that we reviewed did not submit the required supervisory committee audit report or audited financial statement report to the Fund. Yet, the Fund concluded that these institutions were in compliance with the terms of their assistance agreements.

Instead of complying with requirements, each of the three regulated CDFIs submitted a copy of its NCUA Call Report²⁰ to satisfy annual financial reporting requirements. While submittal of an NCUA Call Report was acceptable for semiannual reporting requirements, it was not acceptable for annual financial statement requirements.

As a result, the Fund was unaware that the supervisory committee of one of these institutions had failed to complete an annual financial statement audit for FY 2000. Without the proper financial

²⁰ The NCUA Call Report, NCUA 5300 Form, is the input source of credit union financial and statistical information. The NCUA uses the information in the Call Report to produce financial performance reports and to supervise credit unions.

reports, the Fund may not be able to determine whether material weaknesses or reportable conditions exist at regulated CDFIs.

The Fund's assistance agreements with the four regulated institutions that we reviewed required the CDFIs to submit a copy of their single audit report to meet their annual financial reporting requirements. If the CDFI is not subject to single audit reporting requirements, the CDFI shall instead submit to the Fund:

- (i) annual supervisory committee (or equivalent thereof) audit requirements, currently described in 701.12²¹ of the rules and regulations of the National Credit Union Administration, or
- (ii) the outside audit requirements, currently described in 701.13²² of said rules and regulations.

Our review indicated that some of the credit unions that received CDFI Fund awards were not familiar with all of the terms and conditions of their assistance agreements. In addition, there was no indication that the Fund contacted any of these regulated institutions to request a copy of the annual supervisory committee report or outside audit report. Thus, there are indications that Awards Management and CME staff members may not have been familiar with the specific annual financial reporting requirements for regulated institutions.

Recommendation

14. The Director should ensure that Awards Management and CME staff members receive additional guidance on annual financial reporting requirements for regulated institutions, so that the required financial reports are obtained and reviewed.

²¹ CFR Title 12, Section 701.12(c), *Supervisory Committee Audit*, requires that a supervisory committee audit of each Federal credit union occur at least once every calendar year.

²² CFR Title 12, Section 701.13, *Requirements for an Outside Audit*, requires that an outside, independent audit by a certified public accountant be obtained for any fiscal year during which any one of the following three conditions is present: (1) The supervisory committee of the Federal credit union has not conducted an annual supervisory committee audit; (2) The annual supervisory committee audit conducted did not meet the audit requirements of 701.12; or (3) The Federal credit union has experienced serious and persistent recordkeeping deficiencies.

Management Response

Training provided to Awards Management and CME staff during May 2002 stressed reporting requirements, including those for regulated institutions. The Fund's ongoing training program, in the form of on-the-job training, onsite sessions, and distribution of informative material, will continue to address regulated institutions, among many other topics. The Fund also sponsors staff to attend vendor courses and association conferences.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendation.

Finding 9

The Fund Should Develop Guidance and Resume Its Planned Onsite Reviews

The CME conducted its first onsite visit to a CDFI during September 2000. Its staff confirmed the accuracy of the performance goal data submitted by the CDFI, and prepared a memorandum detailing the results of the visit. CME staff also joined the OIG for its visits to three CDFIs during the survey phase of this audit. At that point, the Fund was considering how to structure its onsite review process. To avoid duplicative efforts, it was agreed that the Fund would not perform additional onsite visits until the OIG onsite work was completed.

We believe that, now that we have finished our onsite work, it would be beneficial for the CME to resume its plans to conduct onsite visits. Before doing so, however, we believe that there is a need to establish criteria for selecting CDFIs for periodic desk audits and onsite visits, and to provide operating guidance to ensure that there is consistency in terms of data-gathering and documentation. We also believe that a schedule should be established for performing these visits.

Without proper guidance, there is increased risk that the awards monitoring program is not operating as effectively as it could. Policies and procedures would help ensure consistent operations, with everyone involved in the desk audits and onsite reviews knowing exactly what is to be done, by whom, and how.

Recommendations

15. The Director should establish written guidance for conducting desk audits and onsite visits to assess the accuracy of CDFI performance goal data.
16. The Director should establish (1) criteria for selecting CDFIs for periodic desk audits and onsite visits; and (2) a schedule for performing selected desk audits and onsite visits.

Management Response for Recommendations 15 and 16

The CME is amending and updating its Operations Manual. Plans are for policies and procedures to address how CDFIs will be selected for review and how site visits will be performed, documented, presented, and, if necessary, followed up on. Guidance will build upon the outline that was established during the Fund's initial site visits, mentioned above. It is expected that policies and procedures will be in place by January 2003.

OIG Comments

The OIG believes that the actions taken or planned by the Fund address the intent of the recommendations.

Finding 10

The Fund Is Taking Action To Improve Performance Measures

We found that, at the time of our review, many of the performance measures were still tailored to address a CDFI's specific activity, as first reported by GAO in 1998.²³ The outcomes measured could not be aggregated because they were not comparable. In 1998, GAO reported that the 1996 assistance agreements²⁴ revealed an emphasis on measures of activity, such as the number of loans made, rather than on measures of accomplishment, such as the number of jobs created or retained. Thus, the assistance agreements focused primarily on what CDFIs would do, rather than on how their activities would affect distressed communities.

To determine whether there was continued emphasis on measures of activity, we reviewed 43 assistance agreements²⁵ that the Fund signed with CDFIs through March 15, 2001, to categorize the type of performance measurement data being accumulated (e.g., loan data, employment data, membership data). We found that many of the performance measures were still focused on specific activities of individual CDFIs, and could not easily be consolidated or summarized. Individualized performance measures addressed such areas as total gross revenues reported by borrowers and tenants, and a CDFI's ability to promote and support the creation of a living wage, as reflected by the amount of compensation of its borrowers as a percentage of the annual poverty level for a family of four.

Fund management advised us that, following receipt of the 1998 GAO report, the Fund required all new assistance agreements to include at least one impact measure (such as jobs created or housing units developed). The Fund did not intend to exclude output measures (such as the number and dollar amount of loans closed) or to standardize measures for aggregation. To collect data

²³ The GAO report, titled *Community Development: CDFI Fund Can Improve Its Systems to Measure, Monitor, and Evaluate Awardees' Performance*, GAO/RCED-98-225, was issued during July 1998.

²⁴ GAO categorized the goals and measures used for 1996 award recipients that had signed their assistance agreements with the Fund by February 1998.

²⁵ These 43 assistance agreements were signed after GAO issued its report to Congress on July 15, 1998.

that could be aggregated, the Fund in January 1999 introduced an Annual Survey, which covers areas such as community development impact, portfolio quality, populations served, and overall financial condition.

In our analysis of the 43 assistance agreements, we also found that the performance measures did not always assess how CDFI activities were improving economic conditions in distressed communities. For example, one CDFI's goal was to provide microentrepreneurs access to credit. One measure of this CDFI's success was the total number of microenterprise loans (loans of \$25,000 or less for business purposes) that it closed annually. We found that while the CDFI maintained records supporting the total dollar amount of microenterprise loans it closed, and the number of jobs it created or retained during the reporting period, no performance measurement data was gathered that assessed the impact of the loan on the distressed community beyond the initial reporting period.

During our review of microenterprise loans closed during this CDFI's performance period, we were unable to locate 80 percent of the borrowers selected for review. Our inability to locate these borrowers raises some questions as to whether CDFI Program funds are improving economic conditions in this distressed community, and also raises potential concerns about this CDFI's lending practices, because many of its borrowers had apparently moved, gone out of business, or provided false addresses, and their whereabouts were unknown. We also found that this CDFI did little verification of a loan applicant's personal data.

While performance measures in the past have been tailored to address each CDFI's specific activity, the Fund is currently taking action to build a set of performance measurement data that will enable it to assess how CDFIs have improved the economic conditions of communities that are underserved by traditional financial institutions.

About six months ago, the Director of the Fund reported to Congress²⁶ that the Fund believed a significant investment to collect and analyze loan-level data would enhance its ability to report impact in various forms. To that end, the Fund is planning the following initiatives:

- Allocating \$500,000 of its FY 2003 budget to enable the Fund to collect loan-level data to report performance and impact of CDFI activities, similar to the administration of the Community Reinvestment Act and the Home Mortgage Disclosure Act.
- Working with the community development industry to build a set of performance measures and establish a performance matrix for CDFIs. This matrix will rate financial stability and community development impact. By using financial and economic factors, the Fund plans to assess how CDFIs improve economic conditions of communities that are underserved by traditional financial institutions.
- Using the planned rating system to better manage the Fund's portfolio of investments and to identify and monitor under-performing entities.

In his appropriations statements, the Director of the Fund also recognized that measuring community development impact has been a challenge to the Fund and the industry overall. In the next two years, the Fund increasingly will focus on identifying additional measures of impact. For example, the Fund is:

- reviewing the way it collects outcome information from CDFIs;

²⁶ CDFI Fund Director Tony T. Brown's Written Statements for FY 2003 Appropriations Hearings: (1) U.S. House of Representatives Subcommittee on VA, HUD and Independent Agencies, March 14, 2002; and (2) U.S. Senate Subcommittee on VA, HUD and Independent Agencies, April 24, 2002.

-
- planning to revise its performance goal and measurement system so that it produces standardized information on all CDFIs; and
 - planning to incorporate reporting requirements, to the extent possible, in its annual survey to minimize the reporting burden on CDFIs.

We believe that these planned actions should assist the Fund in assessing the program's impact on community development.

* * * * *

We would like to extend our appreciation to the CDFI Fund and to the recipients of CDFI Fund awards that were in our sample for the cooperation and courtesies extended to our staff during the review. If you have any questions, please call me at (202) 927-6512 or Maria V. Carmona, Audit Manager, *Banking and Fiscal Service*, at (202) 927-6345. Major contributors to this report are listed in Appendix 3.

Donald R. Kassel
National Director, *Banking and Fiscal Service*

The objective of the audit was to determine whether the CDFI Fund's post-award administration process is effective to ensure that CDFI award recipients are carrying out their activities in accordance with their assistance agreements.

Audit work was conducted at the CDFI Fund headquarters in Washington, D.C., and at 48 CDFI award recipients located in 22 states around the country. To obtain a perspective from other organizations, we reviewed recent reports on the CDFI Fund issued by GAO. We also discussed their respective agency's post-award administration processes with officials of the National Institutes of Health and of the National Oceanic and Atmospheric Administration.

Our audit covered a sample of CDFI Program awards that were made during FYs 1996-1999, with our main focus being on reports due from those award recipients between October 31, 1999, and August 31, 2001. Because of the length of time required to execute the assistance agreements and to make the initial disbursements on awards, our scope did not extend to awards made by the Fund during FY 2000.

The 54 awards²⁷ that we reviewed totaled \$60.8 million. Our sample covered 15 percent of the total CDFI Program awards that the Fund made during FYs 1996-1999, and 28 percent of the total dollars awarded under the CDFI Program during that period.

To accomplish our objective, we reviewed applicable laws governing the administration of the Fund. We also obtained and reviewed the Fund's post-award administration policies and procedures, and interviewed Fund management and some of the staff directly involved in the post-award process.

We evaluated the adequacy of the Fund's current operational procedures and practices for monitoring recipient compliance

²⁷ Our sample of 54 awards included two awards each for 4 of the 48 CDFI Program award recipients, and three awards for 1 CDFI.

with assistance agreements. As part of this evaluation, we assessed the roles of the Fund's CME and Portfolio Committee in ensuring CDFI compliance with assistance agreements. In addition, we considered what actions, if any, the Fund had taken against CDFIs that were not in compliance with their assistance agreements. We also assessed the adequacy of the Fund's Report Monitoring System.

This review, which was the fourth in a series of program audits conducted on the CDFI Fund,²⁸ was part of the OIG Annual Plan for FY 2001. After some preliminary work, we performed a survey during July 2001, and performed additional onsite visits to CDFIs beginning in October 2001. We completed field work during March 2002.

During the survey phase of the audit, we visited three award recipients to familiarize ourselves with CDFI operations and to refine our data-gathering instruments. During the field work phase, OIG teams visited an additional 45 CDFIs, which had received a total of 51 CDFI Program awards during FYs 1996-1999, to ascertain whether the Fund's post-award administration process was effective to ensure that recipients were carrying out their activities in accordance with their assistance agreements.

During both phases, we evaluated each recipient's compliance with the terms of its assistance agreement and the accuracy of reports submitted to the Fund. We determined whether recipients (1) submitted required reports to the Fund; (2) maintained adequate documentation to support the financial soundness covenant calculations in the semiannual reports; and (3) maintained adequate documentation to substantiate performance benchmarks reported in the annual reports. We also determined if the recipients' audited

²⁸ The three prior OIG program audits of the CDFI Fund, for which reports were issued during 1998 and 1999, evaluated the application and selection processes of the BEA Program and of the Core Component of the CDFI Program, and assessed controls over the review of obligated balances (OIG-98-118, OIG-99-040, and OIG-99-129). The OIG has also issued reports on the annual financial statement audits of the Fund, which are performed by an independent Public Accounting firm.

financial statement reports identified any material weaknesses or reportable conditions.

During the field work phase, our teams used various techniques to authenticate employment, loan, training, and purchase record data reported by CDFIs in support of their performance goals and measures. We reviewed records supporting 19 technical assistance awards totaling \$1.2 million. Specifically, we examined costs related to use of technical assistance funds, and assessed whether the assistance was used in accordance with assistance agreement requirements. We also verified the existence of technology-related equipment purchased with technical assistance funds.

In addition, we completed a questionnaire with officials of the CDFI Program award recipients to obtain their impressions of the Fund's overall operations.

It should be noted that separate OIG audit reports were not issued on the CDFI Program award recipients in our sample because the objective of this audit was to evaluate the operations of the CDFI Fund itself. Where appropriate, our teams shared observations or suggestions for improved operations or documentation with management of the individual CDFIs.

We conducted our audit in accordance with generally accepted government auditing standards.

Appendix 2
Management Comments

The following page(s) contain a graphical image of the management response received for this OIG report. The image is used to maintain the integrity of the response received. If you wish to receive a hard copy, please contact the OIG Office of Audit at (202) 927-5400 or send an e-mail message to Webmaster@oig.treas.gov.



DIRECTOR

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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
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SEP 17 2002

Memorandum For: Donald R. Kassel
National Director, Banking and Fiscal Service

From: *for* Tony T. Brown *Quynh M. Jones*
Director, Community Development Financial Institutions Fund

Subject: Audit of the Community Development Financial Institutions Fund
Post-Award Administration Process

The purpose of this memorandum is to formally respond to your subject draft report. The report is a very comprehensive and thorough review of the Fund's post-award practices and procedures at the time of the audit; and the report fairly represents the achievements and implementation efforts by the Fund to date with respect to many of the report's recommendations.

At the formal exit conference, we advised you that the Fund was formulating its response to Finding 6 (Limited Accountability over Assistance Disbursed to CDFIs) for Recommendations 10, 11, and 12. The Fund has developed the attached response and we believe it fully comports and addresses the intent of this finding and the associated recommendations.

You and your staff are to be commended for your efforts and the level of professionalism during the conduct of the review.

Attachment

Appendix 2
Management Comments

FINDING 6 – Limited Accountability over Assistance Disbursed to CDFIs

Recommendation 10:

The Director should amend the Fund's assistance agreements to require CDFI award recipients to account separately for the use of funds received as financial assistance.

Recommendation 11:

The Director should provide CDFIs with guidance on maintaining separate accounting over financial assistance received from the Fund and establishing corresponding administrative and accounting controls.

Recommendation 12:

The Director should initiate action to amend the OMB Circular A-133 Compliance Supplement to reflect revised accountability requirements for financial assistance funds.

Management Response for Recommendations 10, 11, and 12

Beginning with the FY 2003 CDFI Program awards, the Fund will require awardees to deposit all Fund awards in a separate bank account, and stipulate that this account be used only for disbursement of such awards. This requirement will enable the awardee's auditors to ascertain that the use of the Fund's awards is in compliance with the underlying assistance agreement. The Fund's Compliance Supplement to OMB Circular A-133 will be amended to reflect this new requirement.

This requirement for separately accounting for the Fund's awards will be incorporated into the Fund's FY 2003 Notices of Funds Availability and in the Fund's assistance agreements (starting with the FY 2003 awards). The Fund will provide guidance to awardees outlining the format and content of the information to be provided on an annual basis regarding the use of the Fund's awards.

Washington Headquarters

Donald R. Kassel, National Director, *Banking and Fiscal Service*
Maria V. Carmona, Audit Manager, *Banking and Fiscal Service*
Kevin Donahue, Auditor-in-Charge, on detail from the
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Department of the Treasury

Under Secretary for Domestic Finance
Assistant Secretary for Financial Institutions
Office of the General Counsel
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Community Development Financial Institutions Fund

Director
Counsel
Deputy Director for Management/CFO
Deputy Director for Policy & Programs

Office of Management and Budget

OIG Budget Examiner