



Audit Report



OIG-23-033

CORONAVIRUS DISEASE 2019 PANDEMIC RELIEF PROGRAMS

Audit of the Community Development Financial Institutions Fund's Implementation of the CDFI Equitable Recovery Program

September 13, 2023

Office of Inspector General
Department of the Treasury

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Abbreviations

AMIS	Awards Management Information System
CAA, 2021	<i>Consolidated Appropriations Act, 2021</i>
CDFI	Community Development Financial Institutions
CDFI ERP	CDFI Equitable Recovery Program
CDFI FA	CDFI Financial Assistance Program
CDFI Fund	Community Development Financial Institutions Fund
CDFI RRP	CDFI Rapid Response Program
COVID-19	Coronavirus Disease 2019
FY	Fiscal Year
GAO	U.S. Government Accountability Office
Green Book	<i>GAO’s Standards for Internal Control in the Federal Government</i>
MLI	Minority Lending Institution
NOFA	Notice of Funding Availability
OCME	Office of Compliance Monitoring and Enforcement
OIG	Treasury Office of Inspector General
OMB	Office of Management and Budget
PG&Ms	Performance Goals and Measures
SAM	System for Award Management
Treasury	Department of the Treasury
Uniform Guidance	<i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200</i>

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Audit Report

September 13, 2023

Marcia Sigal
Acting Director of the Community Development Financial
Institutions Fund

This report presents the results of our audit of the Community Development Financial Institutions (CDFI) Fund's implementation of the CDFI Equitable Recovery Program (CDFI ERP). Title V, Subtitle B in Division N of the *Consolidated Appropriations Act, 2021*¹ (CAA, 2021) authorized the CDFI Fund to provide emergency support to CDFIs and communities responding to the economic impact of the Coronavirus Disease 2019 (COVID-19) pandemic. Furthermore, the Department of the Treasury's (Treasury) Office of Inspector General (OIG) is required to submit a report no less than twice a year to Congress² and Treasury on the oversight provided for the programs established under Subtitle B, including any recommendations for improvement. In accordance with this mandate, we conducted this audit.

The objective of this audit was to assess the CDFI Fund's CDFI ERP implementation, to include pre-award and award activities, including making funds available.³ The scope of our audit included, but was not limited to, reviewing (1) CDFI ERP application requirements; (2) grant opportunity announcements; (3) policies and procedures; (4) award terms and conditions; and (5) other documentation governing the CDFI Fund's administration of CDFI ERP grants. We also reviewed the CDFI Fund's plans for establishing CDFI ERP post-award monitoring procedures. Our audit

¹ P.L. 116-260, *Consolidated Appropriations Act, 2021* (December 27, 2020).

² The committees of Congress named under Subtitle B include the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate.

³ As it relates to our audit objectives, funds available is defined as the announcement of a funding opportunity advertising the CDFI ERP to the public.

scope included the CDFI Fund’s activities related to the design and implementation of the CDFI ERP from December 2020 through December 2022.

To accomplish our audit objective, we reviewed the CDFI ERP Notice of Funds Availability⁴ (NOFA) and application materials; documented and reviewed CDFI ERP policies and procedures, major decisions, award terms and conditions, and other supporting documentation related to the CDFI Fund’s implementation of the CDFI ERP; performed walkthroughs of the CDFI Fund’s Awards Management Information System⁵ (AMIS); and interviewed CDFI Fund officials and personnel responsible for implementing the CDFI ERP. Because the CDFI ERP was still under development, we performed an assessment of the design of processes and internal controls over CDFI ERP pre-award activities and award activities.

We conducted our fieldwork from August 2022 to December 2022. Appendix 1 contains a detailed description of our audit objective, scope, and methodology.

Results in Brief

The CDFI Fund took appropriate steps to establish the CDFI ERP to include making funds available to recipients, as well as establishing policies, procedures, and program guidance. While the CDFI Fund established the CDFI ERP in accordance with applicable laws and regulations, the CAA, 2021 did not specify a due date to make funds available or expend them.

During our assessment, we found that CDFI Fund management allocated existing staff, hired new personnel, and contracted external reviewers in standing up the CDFI ERP. In designing a framework to comply with the CAA, 2021, management consulted with officials from Treasury, the Office of Management and Budget

⁴ The NOFA is a Federal agency’s formal announcement of the availability of Federal funding for a financial assistance program.

⁵ AMIS is an enterprise-wide business system that supports all CDFI Fund programs through each phase of the programs’ life cycles, including processes related to certification, program awards and allocations, pre-award requirements, compliance reporting, and data analysis. Additionally, applicants use AMIS to create, complete, and submit applications.

(OMB), and staff members from the Senate Committee on Banking, Housing, and Urban Affairs and the House Financial Services Committee. Additionally, the CDFI Fund leveraged the existing program structures from the CDFI Rapid Response Program⁶ (CDFI RRP) and CDFI Financial Assistance⁷ (CDFI FA) Program, and used existing tools to evaluate CDFI ERP candidates' financial and compliance risk.

The CDFI Fund established internal controls over the CDFI ERP in accordance with the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*⁸ (Green Book) to include (1) a process for CDFIs to apply for CDFI ERP awards conforming to the CAA, 2021; and (2) a CDFI ERP application evaluation process (including award determinations) to meet the legislative requirements.

We determined that the CDFI Fund provided sufficient guidance to potential CDFI ERP applicants and developed CDFI ERP-specific application submission and review processes' policies, procedures, and internal guidance for program personnel.

As of February 2023, the CDFI Fund continued to build out its CDFI ERP-specific post-award policies and procedures, and other program guidance and documentation.

We make no recommendations in this report. As part of our reporting process, we provided CDFI Fund management an opportunity to comment on a draft of this report. In a written response, the CDFI Fund management acknowledged there was no recommendation and stated that they appreciated the work of

⁶ The CAA, 2021 provided \$1.25 billion to the CDFI Fund to award CDFIs with grants to deliver immediate assistance in communities impacted by the COVID-19 pandemic through the CDFI RRP. The CDFI RRP was designed to quickly and broadly deploy capital to certified CDFIs through a streamlined application and valuation methodology. On June 15, 2021, Treasury announced that it had awarded \$1.25 billion in COVID-19 relief funds to 863 CDFIs.

⁷ The CDFI FA Program offers awards of up to \$2 million to allow CDFIs to sustain and expand their products and services as outlined in their funding applications. CDFIs must match this award with funds from a non-Federal source. CDFI FA awards can be used for lending capital, loan loss reserves, capital reserves, operations, and development services.

⁸ The GAO Green Book sets the standards for an effective internal control system for Federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system.

Treasury OIG staff, and the opportunity to review and provide a response to the report. The CDFI Fund’s management response, in its entirety, is included in appendix 2 of this report.

Background

The CDFI Fund

The CDFI Fund was established by the *Riegle Community Development Regulatory Improvement Act of 1994*,⁹ as a bipartisan initiative created for the purpose of promoting economic revitalization and community development through investment in and assistance to CDFIs. Since its creation, the CDFI Fund has awarded more than \$5.5 billion to CDFIs, community development organizations, and financial institutions through: the Bank Enterprise Award Program; the Capital Magnet Fund; the CDFI RRP; the Community Development Financial Institutions Program, including the Healthy Food Financing Initiative; the Economic Mobility Corps; the Native American CDFI Assistance Program; and the Small Dollar Loan Program. In addition, the CDFI Fund has allocated \$66 billion in tax credit allocation authority to Community Development Entities through the New Markets Tax Credit Program, and closed guaranteed bonds for more than \$2.1 billion through the CDFI Bond Guarantee Program.

The CDFI Fund is led by a Director¹⁰ who is supported by a Senior Advisor, the Chief Financial Officer, the Office of Legal Counsel, and the Office of Legislative and External Affairs. There are two Deputy Directors who oversee program and operations: (1) the Deputy Director of Policy and Programs who oversees the efforts of all the CDFI Fund’s award programs in support of the CDFI Fund’s strategic visions; and (2) the Deputy Director of Finance and Operations who is responsible for developing policies, operating procedures, internal controls, and short- and long-term strategic plans for the CDFI Fund.

⁹ P.L. 103-325, *The Riegle Community Development and Regulatory Improvement Act of 1994* (September 23, 1994).

¹⁰ As of May 8, 2023, the Deputy Director of Policy and Programs is the Acting Director of the CDFI Fund. The Senior Advisor to the Deputy Director of Policy and Programs is currently the Acting Deputy Director of Policy and Programs.

CDFI Certification

CDFI certification is the CDFI Fund’s recognition of specialized financial institutions serving low-income communities. Through certification, CDFIs are qualified to apply for CDFI FA Program awards, as well as training provided by the CDFI Fund through the Capacity Building Initiative.¹¹

To apply for a CDFI ERP award, organizations must have been certified by the CDFI Fund as of the date of the CDFI ERP NOFA publication in the Federal Register.¹²

To become a certified CDFI, an organization 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);¹³
- (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.

Once a CDFI has been certified, it must submit an Annual Certification and Data Collection Report to allow the CDFI Fund to assess whether the organization remains in compliance with their

¹¹ The CDFI Fund created the Capacity Building Initiative to help CDFIs improve their ability to deliver financial products and services to economically underserved communities. CDFIs can access free training workshops, webinars, market research, customized technical assistance, and informational resources to help them develop, diversify, and grow.

¹² The CDFI ERP NOFA was published in the Federal Register on June 24, 2022.

¹³ A target market refers to one or more investment area(s) and/or targeted population(s). Targeted populations may include low-income targeted populations (defined based on income) or other targeted populations (an identifiable group of individuals in the organization's service area for which there exists a strong basis in evidence that the group lacks access to loans, equity investments, and/or financial services).

certification requirements and to monitor any changes in the organization's financial and/or other data.¹⁴

CAA, 2021

Title V, Subtitle B, Community Development Investment, within Division N of the CAA, 2021, appropriated \$3 billion to the CDFI Fund, of which, up to \$1.75 billion shall be made available until expended to provide grants to CDFIs to respond to the economic impact of the COVID-19 pandemic.¹⁵

The CDFI Fund shall use the funds to expand lending, grant making, or investment activity in low- or moderate-income minority communities that have significant unmet capital or financial service needs using criteria such as certification status, financial and compliance performance, portfolio and balance sheet strength, a diversity of CDFI business model types, status as a minority lending institution¹⁶ (MLI), and program capacity, as well as experience making loans and investments in those areas and populations identified.

Additionally, up to \$1.2 billion shall be for providing financial assistance, technical assistance, awards, and training and outreach programs to recipients that are MLIs.

¹⁴ In May 2020, the CDFI Fund announced that they would be requesting public comment on a revised CDFI certification application and two certification reports: the Annual Certification and Data Collection Report and a new certification Transaction Level Report. The CDFI Fund paused the acceptance of new CDFI certification applications and requests for target market modifications for a period of six months beginning on October 1, 2022 in order to complete preparations needed to deploy the new CDFI certification application and reporting tools. CDFIs applying for the CDFI ERP were required to be certified.

¹⁵ The \$1.75 billion was allocated for the CDFI ERP. The remaining \$1.25 billion was allocated for the CDFI RRP, which is not within the scope of this audit.

¹⁶ The CAA, 2021 defines an MLI as a CDFI: (A) with respect to which a majority of both the number and dollar volume of arm's-length, on-balance sheet financial products of the CDFI are directed at minorities or majority minority census tracts or equivalents; and (B) that— (i) is a minority depository institution, as defined in section 308(b) of the *Financial Institutions Reform, Recovery, and Enforcement Act of 1989* (12 U.S.C. 1463 note), or otherwise considered to be a minority depository institution by the appropriate Federal banking agency, as defined in section 3 of the *Federal Deposit Insurance Act* (12 U.S.C. 1813), or by the National Credit Union Administration, as applicable; or (ii) meets standards for accountability to minority populations as determined by the Administrator.

Audit Results

CDFI Fund's Implementation of CDFI ERP Complied With Federal Requirements

CDFI Fund management took appropriate steps to establish the CDFI ERP in compliance with the GAO Green Book, the CAA, 2021, and OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 Code of Federal Regulations 200* (Uniform Guidance).

Specifically, CDFI Fund management staffed the program in accordance with GAO Green Book Principles by allocating existing staff, hiring new personnel, and contracting external reviewers. The CDFI Fund also made funds available to recipients and designed the program in compliance with the CAA, 2021 and the Uniform Guidance. Furthermore, the CDFI Fund followed the GAO Green Book when establishing program-specific policies, procedures, and program guidance relating to the application submission and review processes.

The CDFI Fund Staffed and Established the CDFI ERP

As part of the CAA, 2021, the CDFI Fund was permitted to use funds appropriated to the emergency support programs for administrative expenses, such as staffing costs and contracts. As of the end of fiscal year (FY) 2022, the CDFI Fund expended approximately \$2.74 million in administrative expenses related to the implementation of the CDFI ERP. The CDFI Fund allocated \$8.37 million in remaining funds to be used to administer the program.¹⁷

The CDFI Fund established the CDFI ERP consistent with GAO Green Book Principle 3, which states that "management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives." The CDFI Fund created an organizational chart, determined staffing needs for

¹⁷ In the September 26, 2021 FY 2022 SF-132 apportionment request to OMB, the CDFI Fund estimated it would need to retain \$11.04 million to cover administrative expenses for the CDFI ERP prior to the finalization of the program's design. As a result of the finalization of the CDFI ERP design, the CDFI Fund has revised its initial budgetary needs to approximately \$11.11 million.

the program to accomplish the objectives, and assigned authority and responsibility to key staff members. In addition, the CDFI ERP Program team is supported by other CDFI Fund business units. Specifically, these business units include (1) the Information Technology unit; (2) the Office of Compliance Monitoring and Evaluation (OCME); (3) the Office of Certification Policy and Evaluation; (4) the Financial Strategies and Research Unit; (5) the Office of Legal Counsel; (6) the Office of Legislative and External Affairs; and (7) the Office of the Deputy Director for Policy and Programs. An example of this support is the application review and award determination processes. The application review and award determination processes include staff from OCME and the Program Office, along with external reviewers.¹⁸ OCME staff members are also responsible for ensuring that award recipients are in compliance with their Assistance Agreements.¹⁹

The CDFI Fund designed the CDFI ERP framework in compliance with Uniform Guidance §200.202, which states that the Federal awarding agency must design a program with clear goals and objectives that facilitate the delivery of results consistent with the Federal authorizing legislation and create an Assistance Listing before announcing the NOFA. Specifically, CDFI Fund and Treasury management consulted with officials from the Treasury Office of General Counsel and other government organizations²⁰ regarding the NOFA, the program application, and other program documentation. Additionally, the CDFI Fund leveraged the existing program structures from the CDFI RRP and the CDFI FA Program,

¹⁸ As of June 13, 2022, the CDFI Fund hired an external contractor to support completion of the CDFI ERP application evaluation process and related activities. The original contract period of performance was set to end on January 16, 2023, but a modification to the contract extended the period of performance through February 17, 2023.

¹⁹ Once selected to receive an award, each applicant must enter into a CDFI ERP Assistance Agreement with the CDFI Fund in order to receive payment. The Assistance Agreement will set forth the award's terms and conditions, including but not limited to the: (i) award amount; (ii) award type; (iii) the approved uses of award; (iv) eligible use of funds; (v) performance goals and measures (PG&Ms); and (vi) reporting requirements. Assistance Agreements will have a five-year period of performance.

²⁰ The CDFI Fund met with officials from OMB, along with staff members from the Senate Committee on Banking, Housing, and Urban Affairs and the House Financial Services Committee.

along with existing tools, such as the Application Assessment Tool.²¹

The CDFI Fund published the CDFI ERP Assistance Listing and NOFA, and announced the funding opportunity, in compliance with the Uniform Guidance. Per Uniform Guidance §200.203, the Federal awarding agency must create the Assistance Listing based on the authorizing legislation.

In accordance with Uniform Guidance §200.202 and §200.203, the CDFI Fund posted the CDFI ERP Assistance Listing in the System for Award Management²² (SAM.gov) on June 3, 2022, prior to the publication of the NOFA.

Furthermore, per Uniform Guidance §200.204, the Federal awarding agency must announce specific funding opportunities by providing key information in a public notice. The CDFI Fund published the NOFA in the Federal Register on June 24, 2022. The NOFA provides public information about the program, including eligibility requirements, critical deadlines, and reporting requirements. Finally, the CDFI Fund announced the CDFI ERP funding opportunity on Grants.gov.²³

The NOFA was subsequently amended on July 19, 2022, to change the application deadline from August 23, 2022, to September 22, 2022,²⁴ and to issue a technical correction related to the eligibility requirements for the program.

²¹ The CDFI Fund uses the Application Assessment Tool within AMIS to produce applicants' total compliance composite scores based on responses to the compliance questions, as well as information in an applicant's reporting history, reporting capacity, and performance risk with respect to the CDFI Fund's PG&Ms.

²² SAM.gov is an official website of the U.S. Government. Users can use the site to: register to do business with the U.S. Government; update, renew, or check the status of an entity's registration; search for entity registration and exclusion records; search for assistance listings, wage determinations, contract opportunities, and contract data reports; view and submit BioPreferred and Service Contract Reports; and access publicly available award data via data extracts and system accounts.

²³ Grants.gov is a system that provides a centralized location for grant seekers to find and apply for federal funding opportunities. The Grants.gov system houses information for over 1,000 grant programs and vets grant applicants for federal grant-making agencies.

²⁴ On September 21, 2022, due to Hurricane Fiona, the CDFI Fund extended the application deadline for organizations headquartered in Puerto Rico from September 22, 2022, to October 6, 2022.

CDFI ERP Requirements

The CDFI Fund created the requirements to apply for the program to provide funding to CDFIs with a demonstrated experience and interest in CDFI ERP-Eligible Geographies. Additionally, the CDFI Fund limited eligibility for the CDFI ERP to only certified CDFIs, as required by the CAA, 2021.

The CDFI ERP general requirements provided in the NOFA include the following:

- (1) organizations must be certified by the CDFI Fund as of the date of the CDFI ERP NOFA publication in the Federal Register;
- (2) organizations must have at least 30 percent of their average annual financial products closed²⁵ and grants made (dollar volume and number of transactions) in CDFI ERP-Eligible Geographies over their five most recent historic fiscal years; and
- (3) organizations must have audited financial statements for their two most recent historic fiscal years.

CDFI ERP-Eligible Geographies are those areas that meet at least one of the following two criteria: (i) they are census tracts that have the following three characteristics: (1) severe impact from COVID-19 pandemic; (2) Low-or Moderate-Income Census Tract(s);²⁶ and (3) are CDFI Investment areas; or (ii) they are Native Areas. The CDFI Fund created the CDFI ERP-Eligible Geography term for the CDFI ERP and used a combination of data elements to fulfill the requirements of the CAA, 2021.

Furthermore, applicants must have at least 30 percent of their average annual financial products closed and grants made (both in

²⁵ Financial products closed means loans, equity investments, and similar financing activities (as determined by the CDFI Fund) including the purchase of loans originated by certified CDFIs and the provision of loan guarantees. In the case of CDFI intermediaries, financial products may also include loans to CDFIs and/or emerging CDFIs and deposits in insured credit union CDFIs, emerging insured credit union CDFIs, and/or state-insured credit union CDFIs.

²⁶ Low- or Moderate-Income Census Tracts have a median income at or below 120% of the Area Median Income.

dollar volume and in number of transactions) in CDFI ERP-Eligible Geographies over their five most recent fiscal years.

The CDFI Fund prioritized CDFI ERP applicants with a track record in one or more of the following areas:

- (1) making loans, grants, or investments in low- or moderate-income minority communities that are also CDFI ERP-Eligible Geographies;
- (2) making loans, grants, or investments to minorities that have significant unmet capital or financial services needs;
- (3) making loans, grants, or investments in Persistent Poverty Counties,²⁷ Native Areas, and/or U.S. Territories; and
- (4) making loans, grants, or investments to small businesses with less than \$1 million in annual gross revenue or to small farms, with an emphasis on small businesses with less than \$100,000 in annual gross revenue.

Additionally, the CDFI Fund prioritized CDFI ERP applicants who had taken one or more of the following actions since the onset of the COVID-19 pandemic:

- (1) increasing lending in CDFI ERP-Eligible Geographies;
- (2) creating new financial products and grants to support CDFI ERP-Eligible Geographies; and
- (3) expanding into previously underserved CDFI ERP-Eligible Geographies.

To submit a CDFI ERP application, the applicant must register in Grants.gov, SAM.gov, and AMIS. Additionally, the applicant must

²⁷ A Persistent Poverty County means any county, including county equivalent areas in Puerto Rico, that has had 20 percent or more of its population living in poverty over the past 30 years, as measured by the 1990 and 2000 decennial census and the 2011-2015 5-year data series available from the American Community Survey of the Bureau of the Census, or any other territory or possession of the United States that has had 20 percent or more of its population living in poverty over the past 30 years, as measured by the 1990, 2000, and 2010 Island Areas Decennial Censuses, or equivalent data, of the Bureau of the Census.

obtain an Employer Identification Number,²⁸ a Unique Entity Identifier,²⁹ and ensure consistency of information between SAM.gov and AMIS.

Furthermore, applicants must undergo a two-step process that requires the submission of application documents by two separate deadlines in two different locations:

- (1) the OMB Standard Form-424 "Application for Federal Assistance" in Grants.gov; and
- (2) all other required application documents in AMIS.³⁰

CDFI ERP Eligible Activities

The CDFI Fund determined the minimum award size for a CDFI ERP Award to be \$500,000 with a maximum award size being \$15 million, or three times the applicant's average on-balance sheet financial products closed in its five most recent historic fiscal years, whichever is less.

The period of performance for each CDFI ERP award begins with the date the CDFI Fund announces the recipients of the program and includes five full consecutive fiscal years after the date of the award announcement. The CDFI Fund will provide CDFI ERP awards in the form of grants to support eligible activities which

²⁸ An Employer Identification Number is also known as a Federal Tax Identification Number, and is used to identify a business entity.

²⁹ A Unique Entity Identifier is a unique number assigned to all entities (public and private companies, individuals, institutions, or organizations) who register to do business with the Federal government.

³⁰ Applicants must have submitted an OMB Standard Form-424 via Grants.gov by August 18, 2022, and the CDFI ERP Application Package through AMIS by September 22, 2022.

may be expended as (1) financial products and services³¹ and (2) operational support.³²

For any award size, no more than 25 percent of the award amount may be used for financial services and development services combined. The CDFI Fund limited the uses of CDFI ERP awards on financial services and development services to encourage CDFIs to expand lending through financial instruments. These financial instruments are intended to support communities experiencing financial capital needs and encourage investments during a financial crisis. Additionally, the recipient may use up to the greater of \$166,667 or 15 percent of the award amount, up to a maximum of \$400,000, for eligible activities in the operational support categories combined.

CDFI ERP recipients must meet certain performance goals and measures (PG&Ms) as a condition of their award, including, but not limited to:

- (1) all CDFI ERP recipients must expend 60 percent of the award amount by the end of year three of the period of performance, 80 percent of the award amount by the end of year four, and 100 percent of the award amount by the period of performance end date;
- (2) recipients must deploy 90 percent of funds for program activities in the CDFI ERP-Eligible Geographies; and

³¹ Financial products and services may serve commercial real estate, small businesses, microenterprise, community facilities, and affordable housing, and also includes consumer financial products, consumer financial services, commercial financial products, commercial financial services, intermediary lending to non-profits and CDFIs, and other lines of business as deemed appropriate by the CDFI Fund in the following six eligible financial products and services categories: (i) financial products (e.g. loans and equity investments); (ii) financial services (e.g. providing checking and savings accounts); (iii) development services (e.g. activities that promote community development); (iv) grants (e.g. funds transferred without a repayment requirement to a person, business, or other organization); (v) loan loss reserves (e.g. award funds set aside in the form of cash reserves to cover losses on loans); and (vi) capital reserves (e.g. award funds set aside as reserves to support a CDFI's ability to leverage other capital for a specific purpose, such as providing financing).

³² A portion of a CDFI ERP award may also be used for the following seven eligible operational support categories: (vii) compensation – personal services; (viii) compensation – fringe benefits; (ix) professional service costs; (x) travel costs; (xi) training and education costs; (xii) equipment; and (xiii) supplies.

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- (3) any award funds deployed outside of CDFI ERP-Eligible Geographies must serve low- or moderate-income persons or businesses disproportionately impacted by the COVID-19 pandemic that are included in CDFI Eligible Markets.

Additional PG&Ms for each recipient will be determined based on the recipients proposed commitments relative to the CDFI ERP policy priorities in the CDFI ERP application. Final PG&Ms may differ and will be set forth in the CDFI ERP Assistance Agreement.

The CDFI Fund Sought Public Comment for the Definition of an MLI

Pursuant to Section 523 of Division N of the CAA, 2021, an MLI is a CDFI that (i) directs a majority of its financial products to minority populations or communities; and (ii) either (a) is a minority depository institution or (b) demonstrates accountability to minority populations. While the CAA, 2021 allows up to \$1.2 billion in awards for MLIs, the CDFI Fund opted not to set aside funds for MLIs.

On July 28, 2022, the CDFI Fund published a notice in the Federal Register to solicit public comment³³ on the designation criteria for a MLI. Through the public comment process, the CDFI Fund sought feedback from the public on certain aspects of the MLI designation criteria and the process the CDFI Fund should use to designate a CDFI as a MLI. The CDFI Fund plans to consider the feedback received through the public comment period prior to establishing a final definition or designation.

Upon implementation of the final MLI designation criteria, the CDFI Fund plans to utilize the designation for limited purposes, including data collection and reporting.

On February 16, 2023, the CDFI Fund reported that a total of 25 comments were submitted in response to the request. The CDFI Fund is in the process of reviewing these comments to formulate

³³ The request for comment was published in the Federal Register on July 28, 2022, with a closing date of November 25, 2022.

MLI designation criteria. The CDFI Fund anticipates releasing final MLI criteria later in 2023.

CDFI Fund Communication with CDFI ERP Applicants

On June 24, 2022, the CDFI Fund published the NOFA in the Federal Register inviting applicants to apply for grants under the CDFI ERP. The CDFI Fund provided an extensive list of guides, two sets of frequently asked questions, and three application webinars to assist applicants in applying for grants under this program.

On July 15, 2022, the CDFI Fund published an amended NOFA in the Federal Register to change the application package deadline in AMIS from August 23, 2022, to September 22, 2022, as well as make a technical correction related to the eligibility requirements. The CDFI Fund extended the application deadline to allow prospective applicants time to review their portfolios to ensure that they could meet the new requirements of the program regarding eligibility criteria.

In order to develop CDFI ERP-specific documents, the CDFI Fund started with existing documents, program guidance, and processes from the CDFI RRP and CDFI FA. Specifically, the CDFI Fund used required information, definitions, and data points consistent with the CDFI RRP and CDFI FA to meet the legislative requirements for CDFI ERP.

The CDFI Fund Developed the CDFI ERP Application Review Process

The CDFI Fund established control activities for the CDFI ERP application review process consistent with GAO Green Book Principle 10, which states that “management should design control activities to achieve objectives and respond to risks.”

Specifically, the CDFI Fund created a four-step application review process, which includes:

- (1) determining applicants’ eligibility for the CDFI ERP award based on the requirements in the NOFA;

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- (2) evaluating each applicant's financial health and compliance risk;
 - (3) reviewing and scoring applications; and
 - (4) award sizing and final determinations.

The CDFI Fund also designed policies and procedures for the application review process consistent with GAO Green Book Principle 12, stating, "management should implement control activities through policies." Leveraging policies and procedures from existing CDFI Fund programs, the CDFI Fund created procedures, such as the CDFI ERP Standard Operating Procedures, to standardize the application review process, and to allocate review responsibilities across CDFI Fund staff and units. Additionally, the CDFI Fund created detailed Job Aids for specific aspects of the CDFI ERP application review process, including the eligibility review and the financial analysis and compliance risk evaluation.

CDFI ERP Applicants Requested Over Four Times the Available Award Funding

On February 1, 2023, the CDFI Fund released application data for the CDFI ERP. In total, 696 CDFIs headquartered in 46 states, the District of Columbia, Guam, and Puerto Rico requested a total of \$7.69 billion in awards, which is over four times the amount of available funding (\$1.75 billion).

More than half of all certified CDFIs submitted an application for a CDFI ERP award, which included applications submitted by:

- 326 CDFI loan funds, which represents 46.8% of all CDFI ERP applicants and 57% of all certified CDFI loan funds;
- 222 CDFI credit unions, which represents 31.9% of all CDFI ERP applicants and 47% of all certified CDFI credit unions;
- 141 CDFI banks/bank holding companies, which represents 20.3% of all CDFI ERP applicants and 44% of all certified CDFI bank/bank holding companies; and

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- 7 CDFI venture capital funds, which represents 1% of all CDFI ERP applicants and 47% of all certified CDFI venture capital funds.

During the application process, CDFI ERP applicants were required to select from one of five policy priorities where they would commit to deploy their CDFI ERP Awards. CDFI ERP applicants committed to devote their prospective awards in the following areas:

- 37.8% of applicants committed to serve Low- or Moderate-Income Majority Minority Census Tracts that are also CDFI ERP-Eligible Geographies;
- 29.5% of applicants committed to serve minority individuals or minority-owned or controlled businesses;
- 20.5% of applicants committed to serve Persistent Poverty Counties, Native Areas and/or U.S. Territories;
- 7.3% of applicants committed to serve small businesses and farms; and
- 4.9% of applicants committed to increase the dollar volume of financial products closed and grants made by their organizations in CDFI ERP-Eligible Geographies.

The CDFI Fund Designed Information Systems for the CDFI ERP

The CDFI Fund established control activities in AMIS to submit and evaluate CDFI ERP applications. Per GAO Green Book Principle 11, “management should design the entity’s information system and related control activities to achieve objectives and respond to risks.” For example, management created validity checks within AMIS to prevent errors in submitting and reviewing applications, which the Program Office demonstrated during a walkthrough of the application submission and review processes in AMIS.³⁴

³⁴ At the time of the walkthrough, the CDFI ERP applications were still under review. As such, the Program Office demonstrated the application submission and review processes using test data.

Furthermore, the CDFI Fund designed policies and procedures for the application review process in AMIS consistent with GAO Green Book Principle 12 that states “management should implement control activities through policies.” The CDFI Fund established AMIS policies and procedures for the program’s application review process, including the “CDFI ERP Internal Review AMIS Navigation Guide” and the “FY 2022 CDFI ERP External Review AMIS Navigation Guide.” Specifically, these documents provided Federal and external reviewers with instructions for completing their respective steps in the application review process in AMIS.

The CDFI Fund also published AMIS guidance for the program’s application submission process, such as the “FY 2022 AMIS Training Manual for CDFI Equitable Recovery Program,” on the CDFI Fund website. Per GAO Green Book Principle 15, “management should externally communicate the necessary quality information to achieve the entity’s objectives.” This publicly available guidance provided applicants with the steps to complete their CDFI ERP applications in AMIS according to the program’s objectives.

Next Steps

Post-Award Monitoring Procedures for CDFI ERP

The FY 2022 CDFI ERP application period closed on October 6, 2022.³⁵ As of the end of our fieldwork, CDFI Fund management was developing CDFI ERP post-award monitoring procedures. The CDFI Fund is leveraging existing data collection tools and post-award compliance monitoring procedures to meet the specific requirements of CDFI ERP. In addition, CDFI Fund management intends to incorporate the CDFI ERP into its standard operating procedures.

* * * * *

³⁵ On April 10, 2023, Treasury announced that it had awarded over \$1.73 billion in grants to 604 CDFIs for the CDFI ERP.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 577-6609 or James Fuller, Audit Manager, at (202) 961-1080. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided as appendix 4.

/s/

Cecilia Howland
Audit Director, State and Local Fiscal Recovery, RESTORE, and
CDFI Programs

Appendix 1: Objective, Scope, and Methodology

The objective of this audit was to assess the Community Development Financial Institutions (CDFI) Fund's Equitable Recovery Program (CDFI ERP) implementation, to include pre-award and award activities, including making funds available.

The scope of our audit included, but was not limited to, reviewing (1) CDFI ERP application requirements; (2) grant opportunity announcements; (3) policies and procedures; (4) award terms and conditions; and (5) other documentation governing the CDFI Fund's administration of CDFI ERP grants. Our audit scope included the CDFI Fund's activities related to the design and implementation of the CDFI ERP from December 2020 through December 2022. We also reviewed the CDFI Fund's plans for establishing CDFI ERP post-award monitoring procedures.

To accomplish this audit objective, we performed the following procedures during audit fieldwork, which was conducted remotely due to the Coronavirus Disease 2019 (COVID-19) pandemic, between August 2022 and December 2022.

- Reviewed applicable Federal laws, regulations, and guidance, including:
 - P.L. 116-260, Title V, Subtitle B in Division N of *Consolidated Appropriations Act, 2021*, December 27, 2020;
 - P.L. 103-325, *Riegle Community Development and Regulatory Improvement Act of 1994*, September 23, 1994;
 - 12 Code of Federal Regulations Part 1805, "Community Development Financial Institutions Program," August 31, 2015;
 - Office of Management and Budget (OMB), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 Code of Federal Regulations 200*, Updated August 13, 2020 (effective November 12, 2020);
 - U.S. Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government* (Green Book), September 2014; and

Appendix 1: Objective, Scope, and Methodology

- OMB Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” July 15, 2016.
- Reviewed GAO’s Green Book to identify the components and principles of internal control that were significant in the context of the audit objective. Specifically, we evaluated the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring internal control components; and assessed policies, procedures, and guidance against the following principles:
 - Principle 3: *Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the objectives;*
 - Principle 7: *Management should identify, analyze, and respond to risks related to achieving the defined objectives;*
 - Principle 9: *Management should identify, analyze, and respond to significant changes that could impact the internal control system;*
 - Principle 10: *Management should design control activities to achieve objectives and respond to risks;*
 - Principle 11: *Management should design the entity’s information system and related control activities to achieve objectives and respond to risks;*
 - Principle 12: *Management should implement control activities through policies;*
 - Principle 13: *Management should use quality information to achieve the entity’s objectives;*
 - Principle 14: *Management should internally communicate the necessary quality information to achieve the entity’s objectives;*
 - Principle 15: *Management should externally communicate the necessary quality information to achieve the entity’s objectives;*
 - Principle 16: *Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results; and*

Appendix 1: Objective, Scope, and Methodology

- Principle 17: *Management should remediate identified internal control deficiencies on a timely basis.*
- Reviewed CDFI Fund documentation related to the planning and design of the CDFI ERP, including:
 - CDFI ERP Notice of Funding Availability (NOFA), June 24, 2022;
 - CDFI ERP pre-award documentation, such as the Assistance Listing (21.033) and Grants.gov announcement;
 - “Draft Minority Lending Program Design Matrix,” (undated), provided on October 26, 2022;
 - CDFI ERP staff lists, provided June 10, 2022 and October 4, 2022;
 - “CDFI ERP Spend Plan (for OMB)”, May 12, 2022;
 - Memorandum for Fiscal Year (FY) 2022 Equitable Recovery Program Notice of Funds Availability Approval, June 9, 2022;
 - “CDFI Minority Lending Program Overview Presentation,” March 29, 2022;
 - “Minority Lending Program Research Overview,” August 16, 2021;
 - Certified CDFI List as of June 24, 2022;
 - “Memorandum of Understanding Between the Community Development Financial Institutions Fund and the National Credit Union Administration,” January 21, 2016;
 - CDFI ERP Reviewer Contract effective June 13, 2022 (and modifications effective July 8, 2022, September 2, 2022, and October 27, 2022);
 - “COVID Impact Program: Geographic Eligibility,” November 9, 2021; and
 - OMB, “SF-132 Apportionment Schedule,” September 27, 2021.
- Reviewed CDFI Fund documentation related to program announcements, application educational materials and presentations, and application assistance documents, including:

Appendix 1: Objective, Scope, and Methodology

- “CDFI Equitable Recovery Program Pre-Application Overview,” May 2022;
- “CDFI Equitable Recovery Program 2022 Application Frequently Asked Questions,” June 2022 and September 9, 2022;
- “CDFI Equitable Recovery Program 2022 Application Instructions,” June 2022;
- “CDFI ERP Eligible Geographies List,” June 2022;
- “CDFI ERP Application Financial Data Inputs,” June 2022;
- “CDFI ERP Data Inputs Workbook,” June 2022;
- “FY 2022 Awards Management Information System (AMIS) Training Manual for CDFI Equitable Recovery Program,” July 6, 2022;
- “CDFI Equitable Recovery Program Application Overview,” June 30, 2022; and
- “Bulk Address Geocoding AMIS Training Manual,” June 2022.
- Reviewed the CDFI Fund’s policies, procedures, and guidance materials related to CDFI ERP application evaluation and award determination processes, including:
 - “FY 2022 CDFI Equitable Recovery Program Standard Operating Procedures Step A Thru E,” October 4, 2022;
 - “FY 2022 CDFI Equitable Recovery Program Step 1: Eligibility Review Job Aid,” Version 1.1 October 18, 2022;
 - “FY 2022 CDFI Equitable Recovery Program Step 2: Financial Analysis and Compliance Risk Evaluation Job Aid,” October 14, 2022;
 - “CDFI ERP Regulator Data Job Aid,” (undated), provided on November 4, 2022;
 - “Compliance Monitoring and Evaluation Unit Standard Operating Procedures,” (undated), provided on November 4, 2022;
 - “CDFI ERP Internal Review Guidance: Federal Reviewer, Reviewing Official and Selecting Official,” October 25, 2022;

Appendix 1: Objective, Scope, and Methodology

- “CDFI ERP Internal Review AMIS Navigation Guide: Federal Reviewer, Reviewing Official and Selecting Official,” October 25, 2022;
- “FY 2022 CDFI ERP External Review AMIS Navigation Guide,” October 1, 2022;
- “FY 2022 CDFI Equitable Recovery Program External Review Guide,” (undated), provided on November 4, 2022;”
- “CDFI Equitable Recovery Program External Reviewer Orientation Kickoff Webinar,” October 19, 2022;
- “FY 2022 CDFI Equitable Recovery Program External Reviewer Training,” October 2022;
- “FY 2022 CDFI Equitable Recovery Program Internal Review Training,” October 2022; and
- “Conflict of Interest Policy for CDFI Fund Application Reviewers,” (undated), provided on November 4, 2022.
- Reviewed selected CDFI Fund’s guidance related to the CDFI Program and CDFI Rapid Response Program (CDFI RRP):
 - “CDFI Certification Fact Sheet,” January 14, 2016;
 - “Community Development Financial Institutions Program Fact Sheet,” February 28, 2020;
 - “FY 2022 CDFI Program & NACA Program Application Overview Presentation,” February 23, 2022;
 - “FY 2022 CDFI NACA Frequently Asked Questions,” March 2022;
 - “CDFI RRP Assistance Agreement Template,” June 16, 2021;
 - CDFI Program NOFA, February 11, 2022; and
 - CDFI RRP NOFA, February 26, 2021.
- Reviewed Department of the Treasury (Treasury) Office of Inspector General (OIG) reports and GAO reports, including, but not limited to:

Appendix 1: Objective, Scope, and Methodology

- Treasury OIG, *Audit of the Community Development Financial Institutions Fund's Implementation of the CDFI Rapid Response Program*, OIG-22-023 (December 21, 2021);
 - Treasury OIG, *Audit of ASI Federal Credit Union's CDFI Program Awards*, OIG-19-038 (July 11, 2019);
 - Treasury OIG, *Improvements Are Needed in the CDFI Fund's Administration of Technical Assistance Awards*, OIG-20-037 (June 12, 2020);
 - Treasury OIG, *Audit of Treasury's Implementation of the Emergency Capital Investment Program*, OIG-22-028 (March 8, 2022);
 - Treasury OIG, *Audit of the Community Development Financial Institutions Fund's Financial Statements for Fiscal Years 2021 and 2020*, OIG-22-020 (December 15, 2021); and
 - GAO, *COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies*, GAO-22-105291 (January 27, 2022).
- Interviewed the following CDFI Fund and Department of the Treasury personnel:
 - CDFI Fund Deputy Director of Policy & Programs;
 - CDFI Fund Senior Policy Advisor;
 - CDFI Fund Attorney Advisor;
 - Treasury Assistant General Counsel; and
 - Treasury Deputy Assistant General Counsel.
 - Conducted walkthroughs of the CDFI Fund's processes to gain an understanding of the CDFI ERP application process, and planned activities for making award determinations in AMIS. Since no awards were made during our audit, we were only able to assess the design of processes and internal controls established over CDFI ERP pre-award and award activities.

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

Appendix 1: Objective, Scope, and Methodology

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.

Appendix 2: Management Response



COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 7, 2023

Ms. Cecilia K. Howland
Audit Director, State and Local Fiscal Recovery, RESTORE, and CDFI Programs
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 Audit of the Community Development Financial Institutions Fund's Implementation of the CDFI Equitable Recovery Program

Dear Ms. Howland,

At your request, below is the Community Development Financial Institutions Fund's (CDFI Fund) response to the recommendation in the *Audit of the Community Development Financial Institutions Fund's Implementation of the CDFI Equitable Recovery Program*.

OIG Recommendation

None

Management Response

The CDFI Fund appreciates the work of your staff, and the opportunity to review and provide a response to the report. If you have any questions, please contact Dietrich Douglas at 202-925-1420 or douglasd@cdfi.treas.gov.

Sincerely,

A handwritten signature in blue ink that reads "Marcia Sigal".

Marcia Sigal
Acting Director
CDFI Fund

Appendix 3: Major Contributors to This Report

James Fuller, Audit Manager
Lawrence Delva-Gonzalez, Auditor-in-Charge
Kristin Prestel, Auditor
Clint Hoellrigl, Auditor
Kajuana Britt, Referencer

Appendix 4: Report Distribution

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