



Audit Report



OIG-24-036

CORONAVIRUS DISEASE 2019 PANDEMIC RELIEF PROGRAMS

Audit of Treasury's Soundness of Investment Decisions for Participation in the Emergency Capital Investment Program

September 24, 2024

Office of Inspector General
Department of the Treasury

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Abbreviations

BHC	Bank Holding Company
CAA, 2021	<i>Consolidated Appropriations Act, 2021</i>
CDFI	Community Development Financial Institution
COVID-19	Coronavirus Disease 2019
DAS	Deputy Assistant Secretary
ECIP	Emergency Capital Investment Program
GAO	Government Accountability Office
Green Book	<i>Standards for Internal Control in the Federal Government</i>
IC	Investment Committee
MDI	Minority Depository Institution
NCUA	National Credit Union Administration
OIG	Office of Inspector General
PAL	Preliminary Approval Letter
Secretary	Secretary of the Treasury
SLHC	Savings and Loans Holding Companies
SOP	standard operating procedures
Treasury	Department of the Treasury

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Audit Report

September 24, 2024

Jessica Milano
Chief Program Officer
Office of Capital Access

This report presents the results of our audit of the Department of the Treasury's (Treasury) soundness of investment decisions for participation in the Emergency Capital Investment Program (ECIP). Title V, Subtitle B, Community Development Investment, within Division N of the *Consolidated Appropriations Act, 2021* (CAA, 2021)¹ authorized the establishment of the Emergency Capital Investment Fund within Treasury to provide up to \$9 billion of emergency capital investments to low- and moderate -income community financial institutions that support small and minority -owned businesses and consumers responding to the economic impact of the Coronavirus Disease 2019 (COVID-19). Furthermore, Treasury's 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.

Our audit objective was to determine if Treasury accurately allocated investments under the Emergency Capital Investment Program, to comply with applicable laws, regulations, and policies and procedures. The scope of our audit included, but was not limited to, a review of ECIP applications, eligibility and participation requirements, allocation methodologies and calculations, and determination decisions, including investment

¹ Public Law 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.

amounts for ECIP applicants. Our audit scope period included ECIP applications received by September 1, 2021.³

To accomplish our audit objective, we:

- reviewed applicable Federal laws and regulations;
- reviewed ECIP guidance; program documentation; and policies and procedures related to the review and decisioning of ECIP applications;
- performed walkthroughs of ECIP’s application submission, review, and approval/disapproval processes; and
- interviewed Treasury ECIP personnel responsible for reviewing ECIP applications.

To assess the accuracy of allocated investments, we selected a judgmental sample of 15 applicants from the 175 applicants that were awarded. In addition, we reviewed 100 percent of the 37 applicants that were deemed ineligible and/or were not awarded investments to assess whether Treasury correctly evaluated them.

For this audit, we focused on Treasury’s process to review, approve, and make investment decisions for ECIP applicants. We plan to review ECIP’s closing⁴ and funding, and compliance and monitoring processes in future audits.

We conducted our fieldwork remotely from April 2024 to September 2024. Appendix 1 contains a detailed description of our audit objective, scope, and methodology.

³ Treasury established a deadline of September 1, 2021, to accept Emergency Capital Investment Program applications.

⁴ In order to “close” and receive their funds, participants are required to execute the ECIP Legal Agreements, including the Letter Agreement, Securities Purchase Agreement, and Exhibits and Schedules. These legal agreements include covenants that ECIP participants agree to comply with and refer in certain instances to other sources of requirements participants must follow, such as the ECIP Interim Final Rule.

Results in Brief

We determined that Treasury accurately allocated investments under ECIP, in accordance with the *CAA, 2021*, and ECIP policies and procedures. Furthermore, Treasury incorporated internal controls throughout their application review and decision-making process in accordance with the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (Green Book). A listing of the Green Book components and principles of internal controls, significant within the context of the audit objective, are detailed in appendix 1.

Overall, Treasury received 212 ECIP applications from banks, Bank Holding Companies (BHC),⁵ Savings and Loans Holding Companies (SLHC),⁶ and credit unions by the established September 1, 2021, deadline. From the 212 total applications, we reviewed a sample of 52 and determined that Treasury complied with the *CAA, 2021*, for investment decisions made under ECIP. Specifically, Treasury established and followed a 12-step ECIP application review and decision-making process to evaluate applicants and allocate ECIP investments. Accordingly, we did not make any recommendations in this report.

As part of our reporting process, we provided ECIP management an opportunity to comment on a draft of this report. In a written response, Treasury management stated they are pleased that the report confirms that Treasury accurately allocated investments, appropriately incorporated internal controls, and followed its established investment decision-making process. Treasury's management response, in its entirety, is included in appendix 2 of this report.

⁵ A BHC is a corporate entity that controls one or several operating bank companies. To be considered a bank holding company, a firm must: (1) hold at least 25 percent of the voting shares in the bank; (2) control the election of a majority of the directors or trustees; or (3) directly or indirectly influence the management or policies of the bank.

⁶ A SLHC includes any company that directly or indirectly controls either a savings association or any other company that is an SLHC.

Background

CAA, 2021

The CAA, 2021 authorized Treasury to establish the ECIP to provide up to \$9 billion in capital to low- and moderate- income community financial institutions to, among other things, provide loans, grants, and forbearance for small and minority-owned businesses and consumers, located in areas that may have been disproportionately impacted by the economic effects of the COVID-19 pandemic. Of the \$9 billion total available amount, \$4 billion was to be set aside to make (a) \$2 billion available for financial institutions with less than \$500 million in assets, and (b) \$2 billion available for financial institutions with up to \$2 billion in assets.

Treasury launched the ECIP Application Portal on March 4, 2021, with an application deadline of September 1, 2021. As of October 5, 2023, Treasury has made over \$8.57 billion of ECIP investments in 175 community financial institutions across the country. ECIP funds are intended to support the efforts of community financial institutions to provide loans, grants, and other assistance to small and minority-owned businesses and consumers, especially in low-income and financially underserved communities that struggled during the COVID-19 pandemic.

CAA, 2021 Requirements:

Only low- and moderate-income community financial institutions are eligible to participate in ECIP. ECIP requires an institution must either be a certified community development financial

institution (CDFI)⁷ or a minority depository institution (MDI).⁸ In addition, eligible institutions must be: (1) an insured depository institution that is not controlled by a BHC or SLHC that is also an eligible institution; (2) a BHC; (3) a SLHC; or (4) a federally insured credit union.

In addition:

- The Secretary of the Treasury (Secretary) must consult with the appropriate Federal banking agency or the National Credit Union Administration (NCUA), as applicable, to determine whether the institution may receive a capital investment.
- Applicants must provide the Secretary, and the appropriate Federal banking agency or the NCUA, as applicable, an investment lending plan (that meets specific requirements⁹).
- An eligible institution that the Secretary approves for participation in the Program may issue to the Secretary,

⁷ A CDFI has a primary mission of promoting community development; serves an Investment Area or Targeted Population; provides development services in conjunction with equity investments or loans; maintains accountability to residents of its Investment Area or Targeted Population; and is not an agency or instrumentality of the United States or of any State or political subdivision of a State. CDFIs include banks, loan funds (provide financing and technical assistance), credit unions, and venture capital funds (provide equity and debt-with-equity services).

⁸ An MDI is an institution that meets any of the following criteria: (A) as defined in section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 1463 note), a depository institution satisfies this definition if it is (1) a privately owned institution in which 51 percent is owned by one or more socially and economically disadvantaged individuals; (2) a publicly owned institution in which 51 percent of the stock is owned by one or more socially and economically disadvantaged individuals; or (3) a mutual institution in which the majority of the board of directors, account holders, and the community that it services is predominantly minority; (B) an institution considered to be an MDI by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the National Credit Union Administration; or (C) an institution listed in the Federal Deposit Insurance Corporation's MDIs list published for the third or fourth quarter of 2020 or the National Credit Union Administration's MDIs list for the fourth quarter of 2020.

⁹ The lending plan: (1) demonstrates that not less than 30 percent of the lending of the applicant over the past 2 fiscal years was made directly to low-and moderate-income borrowers; (2) describes how the business strategy and operating goals of the applicant will address community development needs in communities that may be disproportionately impacted by the economic effects of COVID-19; (3) includes a plan to provide community outreach and communication; and (4) includes details on how the applicant plans to expand or maintain significant lending or investment activity in low- or moderate-income minority communities.

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- and the Secretary may purchase from the institution, preferred stock.
- If the Secretary determines that an institution cannot feasibly issue preferred stock, the Secretary may purchase from the institution a subordinated debt instrument.
 - An institution is ineligible if it is designated in Troubled Condition¹⁰ by the appropriate Federal banking agency or the NCUA, or subject to a formal enforcement action with its primary Federal regulator that addresses unsafe or unsound lending practices.
 - The Secretary may issue such regulations and other guidance as may be necessary or appropriate to define terms or carry out the authorities.

ECIP Application Review and Decision Process:

Treasury's *ECIP Standard Operating Procedures: Application Review and Decisioning Process*¹¹ was used during Treasury's evaluation process of applicants to determine eligibility and investment allocations. ECIP's standard operating procedures (SOPs) served two primary purposes: (1) to standardize the processes that Treasury ECIP personnel follow to review applications and select applicants for investment; and (2) to clearly document and allocate responsibilities among Treasury ECIP personnel and define roles to implement these procedures. The Application Review and Decision-Making Process consists of a 12 -step process which includes the following:

1. **Application Intake and Initial Checks** - Receive and conduct initial checks on applications to ensure that they are complete and confirm that an applicant meets basic eligibility criteria. Any applications deemed ineligible for investment are removed from further processing unless

¹⁰ "Troubled Condition" is defined under 12 CFR Section 303.101(c) for an applicant whose primary Federal regulator is the Federal Deposit Insurance Corporation, under 12 CFR Section 225.71 for an applicant whose primary regulator is the Federal Reserve Board, under 12 CFR Section 5.51(c)(7), for an applicant whose primary Federal regulator is the Office of the Comptroller of the Currency, and for an applicant whose primary regulator is the NCUA, the meaning given to such term under 12 CFR Section 700.2.

¹¹ *ECIP Standard Operating Procedures: Application Review and Decisioning Process* (February 1, 2023)

the determination is reversed based on additional information provided or because of further analysis.

2. Regulator Feedback

- a. **Federal Regulator Feedback** - Initiate consultation and receive eligibility-related information from the Federal Banking Regulators.¹²
- b. **State Regulator Feedback** - Ensure that the concerns and views offered by the appropriate state regulators are considered when assessing applicants for an investment. Feedback from state regulators is optional. Certain state regulators may inform ECIP that they do not plan to provide feedback on applicants.

- 3. **Financial Agent Review** - Assign applications to the Financial Agents¹³ and receive their input with overall criteria that will be used to evaluate an applicant.
- 4. **Financial Analyst and Lending Plan Analyst Review** - Develop an Investment Committee (IC)¹⁴ Memo for each applicant by the Financial Analyst and the Lending Plan Analyst in collaboration. The Lending Plan Evaluation Form is used to evaluate an applicant and its Lending Plan.
- 5. **Investment Committee Review** - The IC reviews the IC Memo(s) and expresses a preliminary view on which applicants should be approved, denied, or found ineligible.
- 6. **Pool Analysis** - Determine the investment amounts each applicant should receive, as recommended by the IC,

¹² The Federal Banking Regulators include the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the National Credit Union Administration.

¹³ A Financial Agent is a commercial financial institution designated by Treasury to provide certain types of financial services for the federal government in accordance with applicable federal law.

¹⁴ Investment Committee members: (1) Director, Office of Financial Markets; (2) Assistant Director, Office of Financial Institutions Policy; (3) Director, CDFI Fund; (4) Director, Federal Programs, Office of Financial Markets; and (5) Senior Adviser, Office of Domestic Finance.

based on available funding and the legal and policy objectives of the Program.¹⁵

7. **Preliminary Approval** - Obtain approval from the Deputy Assistant Secretary (DAS)¹⁶ on the IC recommendations in the Investment Approval Memo.
8. **Withdrawal** – Document and process an applicant's request to withdraw from ECIP, if applicable.
9. **Additional Information** - Provide an applicant an opportunity to submit additional information to support decision-making by the Program, if needed.
10. **Ineligibility or Not Selected** - Notify any applicants that ECIP has determined as ineligible or not selected for investment. The notification provides applicants an opportunity to request additional information on or reconsideration of the determination.
11. **Reconsideration** - Provide applicants determined to be ineligible or not selected for investment with an opportunity to receive additional information on or to request reconsideration of the determination. If an applicant provides additional information that may result in the DAS making a different determination, the application is re-evaluated as needed, presented to ECIP's Director for reconsideration and the DAS for approval.
12. **Reallocation** - Reallocate any outstanding investment balance to applicants in performance categories 1 and 2 depending on the maximum investment amount for which each applicant is eligible and an estimate of the capital available for reallocation.

¹⁵ The pool analysis accounts for Lending Plan Analysis scores as a factor informing the final amount recommended for investment for each applicant by assigning each applicant to a performance category reflecting overall scores relative to other applicants. Performance categories range from 1 to 5, with categories 1 and 2 being the two highest-scoring categories.

¹⁶ Deputy Assistant Secretary for Community and Economic Development.

Audit Results

We determined that Treasury accurately allocated investments under ECIP, in accordance with the CAA, 2021, and ECIP policies and procedures. Treasury received 212 ECIP applications by the established September 1, 2021, deadline, from banks, BHCs, SLHCs, and credit unions. Overall, we tested 52 ECIP applications, including 100 percent of the 37 applicants that ECIP determined as ineligible, were not selected to participate in the program, or declined to participate in the program. Additionally, we selected a judgmental sample of 15 of the 175 applicants that received an investment in the CDFI, MDI, and combined CDFI & MDI categories.

As a follow up to our *Audit of Treasury's Implementation of the Emergency Capital Investment Program*,¹⁷ we determined Treasury finalized policies and procedures and key documentation to govern full program implementation and ongoing administration of ECIP investments and designed internal controls over the program. Although Treasury also finalized SOPs for ECIP's closing and funding process and participant compliance oversight, we did not assess them. For the scope of this audit, we limited our assessment to Treasury's Application Review and Decisioning Process SOPs to evaluate and allocate investment amounts to applicants in accordance with applicable Federal laws and policies and procedures. As we had no findings in our review, we did not make any recommendations in this report.

Treasury Accurately Allocated Investments Under the Emergency Capital Investment Program in Accordance With the CAA, 2021

The CAA, 2021 requires applicants to submit an investment lending plan for review by Treasury, and the appropriate Federal Banking Agency or NCUA. ECIP policies and procedures require personnel to conduct a pool analysis to determine the investment amount for each recommended applicant,

¹⁷ Treasury OIG, *Audit of Treasury's Implementation of the Emergency Capital Investment Program*, OIG-22-028 (March 8, 2022).

considering the available funding and the evaluation of the applicant's investment lending plan.

We obtained and reviewed application packages for a sample size of applicants approved to participate in ECIP. Application packages included (1) the application; (2) regulator documentation; (3) approval documentation; (4) Financial Agent review spreadsheet; (5) Lending Plan review spreadsheet; and (6) other supporting documentation to make approval/disapproval decisions. We reviewed Treasury's pool analysis workbook and determined Treasury ECIP personnel considered the Lending Plan analysis scores before recommending the investment amount. We confirmed the pool analysis also considered (1) the set-aside amounts required under the CAA, 2021; (2) broad geographic coverage; and (3) broad demographic coverage. Additionally, we confirmed the required ECIP personnel and the ECIP Director approved the IC Memo, and the DAS for Community and Economic Development approved the investment decision for each batch of applicants. Finally, after DAS approval, we confirmed the ECIP team sent Preliminary Approval Letters (PAL) to approved applicants.

Treasury ECIP Personnel Determined the Eligibility of Applicants in Accordance With the CAA, 2021

The CAA, 2021 requires that only low- and moderate-income community financial institutions are eligible to participate in the program. Additionally, Treasury was permitted to establish additional criteria for participants to further the goals of the program. To be eligible for ECIP, an institution must either be a CDFI or an MDI. In addition, eligible institutions must be: (1) an insured depository institution that is not controlled by a BHC or SLHC that is also an eligible institution; (2) a BHC; (3) a SLHC; or (4) a federally insured credit union.

If a BHC or SLHC was not a CDFI or designated as an MDI at the time of application, it was ineligible to participate in ECIP. However, if an ineligible BHC or SLHC had a subsidiary depository institution that was a CDFI or designated as an MDI and was insured by the Federal Deposit Insurance Corporation, that subsidiary was eligible to apply to ECIP.

The CAA, 2021 further states that an applicant must provide Treasury, and the appropriate Federal banking agency or NCUA, an investment lending plan that includes the lending plan requirements. Low- and moderate-income community financial institutions receiving capital investments under ECIP shall provide community outreach and communication, where appropriate. The CAA, 2021 states that an institution is ineligible to participate in ECIP if it is designated in Troubled Condition by the appropriate Federal banking agency or NCUA.

Of the 37 applicants¹⁸ we tested that did not receive an investment, 8 were deemed ineligible as they were not financial institutions. Of the remaining 29 applicants that did not receive an investment, we noted the following reasons in ECIP's database management system:

- applicant(s) requested to withdraw from ECIP participation.
- applicant(s) were determined to be ineligible because they were in Troubled Condition;
- applicant(s) were denied because it was determined that they may not have the capacity to make annual dividend or interest payments;
- applicant(s) were denied due to a subsidiary of each applicant being in Troubled Condition;
- applicant(s) were on the "Do Not Pay" list;¹⁹
- applicant(s) received an offer of an award but did not meet the conditions to close and receive funding;
- applicant(s) no longer maintained a credit union charter; and

¹⁸ One additional applicant was deemed ineligible at the start of the review process; however, the applicant provided additional information and was later deemed eligible and awarded.

¹⁹ Do Not Pay, operated by Treasury's Bureau of the Fiscal Service is available to agencies at no cost to check many data sources at one time to verify a recipient's eligibility for a federal payment.

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- applicant(s) were determined to not have CDFI or MDI status.

Treasury Personnel Used ECIP's Application Review and Decision-Making Procedures to Evaluate Applicants

Treasury ECIP personnel used their ECIP Application Review and Decisioning Flowchart and ECIP Application Review and Decisioning Process SOPs to document and evaluate ECIP applications.

We tested our sample of 52 applicants and ensured ECIP personnel accurately made decisions in accordance with CAA, 2021 and procedures outlined in Treasury's ECIP Application Review and Decisioning Process SOPs. We reviewed applications received in ECIP's database management system²⁰ and confirmed that ECIP personnel performed application intake and initial checks to determine whether applicants met the requirements of low- and moderate-income community financial institutions. Application intake and initial reviews included (1) a personal identifiable information check; (2) an eligibility verification; (3) a completeness check; (4) a limits check;²¹ and (5) a duplicate and affiliates check.²²

Following ECIP's intake checks, we reviewed regulator feedback and determined that ECIP personnel consulted with the appropriate regulators regarding eligibility. State regulators were provided the opportunity to include feedback and concerns about applicants participating in ECIP; however, state regulator feedback was optional.

²⁰ Treasury uses ECIP's database management system for processes including, but not limited to, application submissions, repository of applicant information, application reviews, and approvals and disapprovals.

²¹ The limits check confirms that the total assets reported on an ECIP application match the total assets of the Applicant in its latest quarterly call report. The Federal Financial Institutions Examination Council defines a call report as a quarterly report of a financial institution's condition and income that is used for multiple purposes, including assessing the financial health and risk profile of the institution.

²² Duplicate and affiliates checks identify any duplicate applications or any applications from affiliates of the applicant.

For the Financial Agent, Financial Analyst, and Lending Plan Analyst Review process, we determined ECIP personnel used Financial Agents to conduct evaluations of an applicant's ability to make annual dividend and interest payments and the applicant's ability to execute their lending plan. Financial Analysts conducted evaluations and scored the applicants based on (1) the financial condition of the applicant; (2) the applicant's ability to pay interest and dividends; and (3) factors relating to the capacity of the applicant to execute the lending plan. Lending Plan Analysts scored the applicants based on: (1) the applicant's capacity to execute on their lending plan; and (2) the responsiveness of the lending plan to community needs.

Both the Lending Plan Analyst and Financial Analyst evaluations were used to draft the IC Memo²³ for each applicant. For our sample, we reviewed the application packages, relevant evaluations, and IC Memos and determined that ECIP personnel appropriately documented their review as outlined in the ECIP SOPs. Additionally, we reviewed IC meeting minutes, which documented the review and voting process for the IC to recommend applicant approval or denial.

We confirmed that ECIP personnel incorporated the required set asides in the CAA, 2021 into the pool analysis workbook. ECIP personnel used the pool analysis workbook to determine the investment amounts for each applicant recommended in the IC Memos. The Lending Plan Analysis scores were also used as a factor in determining investment amounts for each recommended applicant.

For our sample, we reviewed and confirmed that the DAS' decisions were recorded in ECIP's database management system. The DAS either approved or denied applicants based on recommendations in the Investment Approval Memo provided by ECIP personnel. Approved applicants received preliminary approval letters with next steps, while denied and ineligible applicants received decision letters with instructions on how to request a reconsideration and submit additional information to ECIP for review.

²³ The IC Memo documented the recommendation on whether to invest in an applicant; and, if so, the recommended maximum investment amount.

For applicants that requested reconsideration and sent additional information, we determined ECIP followed the SOPs and documented applicant requests, submission, and outcome of reconsideration decisions. Within our sample, there was one applicant that requested reconsideration and was later deemed eligible after providing additional information. For applicants approved for reconsideration, ECIP personnel developed a memo recommending reconsideration, including reversals of denial determinations and recommended investment amounts.

Treasury also allowed applicants to withdraw from ECIP. Within our sample, we noted a total of 11 applicants that withdrew from the program and confirmed the applicant withdrawal status in ECIP's database management system. Based on the applicants that withdrew and applicants that accepted a lower investment than they were originally offered, ECIP conducted a process to reallocate funds to applicants that were in performance categories 1 and 2. As part of the review process, we reviewed the reallocation approval memos showing the approved additional investment amounts and the DAS' signature. Lastly, we confirmed the updated PAL was sent to each applicant approved for an increased investment amount.

Treasury Established Adequate Controls for ECIP's Application Review and Decision-Making Process

We tested and identified the design of internal controls by (1) reviewing the GAO Green Book and ECIP policies and procedures; (2) conducting walkthroughs; (3) conducting interviews; and (4) reviewing documentation provided by ECIP personnel. We identified and confirmed controls were in place via documentation provided by ECIP personnel, walkthroughs, and interviews with ECIP personnel. We determined Treasury ECIP incorporated internal controls throughout their application review and decisioning process. Additionally, we assessed *ECIPs Application Review and Decisioning Risk & Control Matrix* and determined participants were adequately screened during application intake and initial checks.

Treasury incorporated control checkpoints throughout the application review and decision-making process. ECIP's flowchart and policies and procedures show 19 control points

with details for each control point listed and explained in *ECIPs Application Review and Decisioning Risk & Control Matrix*. The matrix identifies each control with a control reference that correlates to ECIPs Application Review and Decisioning SOPs and Flowchart. The matrix also lists the risks, control objectives, control activity, and control owner to explain the process details.

Lastly, the audit team tested internal controls deemed significant to the audit objective for ECIP and noted no deficiencies. We determined that ECIP complied with the requirements in the GAO Green Book and OMB A-123 when reviewing and approving or disapproving ECIP applicants.

Next Steps

Funding and Post-Funding Compliance Review for ECIP Investments

During this audit, Treasury provided ECIP SOPs titled Closing & Funding Process and Participant Compliance Oversight. We plan to review ECIP's closing and funding, and compliance and monitoring processes in future audits.

* * * * *

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) 270-2766 or Kevin Guishard, Audit Manager, at (202) 270-7040. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided as appendix 4.

/s/

Daniel F. Gerges
Audit Director, State and Local Fiscal Recovery, RESTORE, and
CDFI Programs

Appendix 1: Objectives, Scope, and Methodology

Our objective was to determine if the Department of the Treasury (Treasury) accurately allocated investments under the Emergency Capital Investment Program (ECIP), to comply with applicable laws, regulations and policies and procedures.

The scope of our audit included, but was not limited to, a review of ECIP applications, eligibility and participation requirements, allocation methodologies and calculations, and determination decisions, including investment amounts for ECIP applicants. Our audit scope period included ECIP applications received by September 1, 2021.

To accomplish our objective, we performed the following procedures during our audit fieldwork, conducted remotely from April 2024 to September 2024.

- Reviewed applicable Federal laws, regulations, and guidance, including:
 - Public Law 116-260, Title V, Subtitle B in Division N of *Consolidated Appropriations Act, 2021*, (CAA, 2021), December 27, 2020;
 - Public Law 118-5, *Fiscal Responsibility Act of 2023*, June 3, 2023;
 - Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book) GAO-14-704G; September 2014;
 - GAO's *Assessing Data Reliability*, December 2019; and
 - Office of Management and Budget 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:

Appendix 1: Objectives, Scope, and Methodology

- Principle 2: *The oversight body should oversee the entity's internal control system;*
- Principle 3: *Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives;*
- Principle 7: *Management should identify, analyze, and respond to risks related to achieving the defined objectives;*
- Principle 8: *Management should consider the potential for fraud when identifying, analyzing, and responding to risks;*
- 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;*
- Principle 17: *Management should remediate identified internal control deficiencies on a timely basis.*
- Reviewed Treasury guidance, policies and procedures relevant to our audit objective, including:
 - ECIP Standard Operating Procedures: Application Review and Decisioning Process;
 - ECIP Standard Operating Procedures: Closing & Funding Process;

Appendix 1: Objectives, Scope, and Methodology

- ECIP Standard Operating Procedures: Participant Compliance Oversight;
- ECIP - Application Review and Decision Map Flowchart;
- ECIP - Credit Scoring Methodology Memo;
- ECIP - Application Review and Decisioning Risk & Control Matrix;
- ECIP - Participant Compliance Oversight Policy.
- Reviewed Treasury Office of Inspector General (OIG) and GAO reports relevant to ECIP:
 - Treasury OIG, *Audit of Treasury's Implementation of the Emergency Capital Investment Program*, OIG-22-028; March 8, 2022;
 - GAO, *Community Development Financial Institutions, Analysis of Annual and Emergency Assistance and Treasury Efforts to Address Program Risks*, GAO-23-105952; December 21, 2022.
- We assessed the reliability of data by (1) reviewing existing information about the data and the system that produced the data, (2) interviewing agency personnel knowledgeable about the data, and (3) performing electronic testing of required data elements for accuracy and completeness. We verified the universe of applications received in ECIP's database management system (by September 1, 2021), for completeness and accuracy through the following:
 - (1) received access to the ECIP database management system and reviewed the entire population of 212 applicants, (2) compared specific information such as application number, applicant name, institution type, requested investment amount; and (3) compared applicant totals to the Applicant by Type Report received during the *Audit of Treasury's Implementation of the Emergency Capital Investment Program* (OIG-22-028; March 8, 2022):
 - Provided Treasury with GAO's Data Reliability Questionnaire from Appendix 1 of GAO's *Assessing Data Reliability*, which provides guidance on identifying controls within the system under audit, and reviewed Treasury's responses.

Appendix 1: Objectives, Scope, and Methodology

- We determined that the data was sufficiently reliable for the purposes of this audit report. We tested 52 ECIP applications received before September 1, 2021. 100 percent testing was conducted on 37 applicants that were deemed ineligible, were not selected in accordance with the CAA, 2021, or that declined to participate.
- We selected a judgmental sample of 15 applications from the 175 that were awarded using the quartile method. Applications were chosen from the following categories:
 - 5 certified community development financial institutions;
 - 5 minority depository institutions; and
 - 5 certified community development financial institution and minority depository institutions.
- We used the quartile sampling method to select a sample from the 25th percent quartile, the 50th percent quartile, and 75th percent quartile. We also selected the smallest and largest award amounts made to ECIP applicants.
- Conducted walkthroughs with Treasury ECIP personnel to gain an understanding of the overall ECIP application review and decisioning process, and planned activities for making award allocation investments.
- Interviewed personnel responsible for ECIP's application review and decisioning process, including the:
 - ECIP Program Manager;
 - ECIP Investment Manager; and
 - Legal Counsel.

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

Appendix 2: Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 16, 2024

Deborah L. Harker
Assistant Inspector General for Audit
U.S. Department of the Treasury – Office of Inspector General
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Ms. Harker:

I write regarding the Office of Inspector General's (OIG) draft *Audit of Treasury's Soundness of Investment Decisions for Participation in the Emergency Capital Investment Program* (Draft Report).

Background on the Emergency Capital Investment Program

Through the Emergency Capital Investment Program (ECIP), authorized by the Consolidated Appropriations Act, 2021, the U.S. Department of the Treasury (Treasury) invested more than \$8.57 billion in community financial institutions to support lending to financially underserved borrowers and communities. ECIP participants are federally insured banks, savings and loan associations, holding companies, and credit unions that are certified as community development financial institutions (CDFIs) by Treasury's CDFI Fund or designated as minority depository institutions (MDIs) by their federal regulator. The 175 institutions that Treasury invested in are headquartered in 35 states, Guam, and the District of Columbia. ECIP supports the efforts of community financial institutions to provide financial products and services for low- and moderate-income and underserved communities that disproportionately suffered from the impacts of the COVID-19 pandemic.

ECIP is showing promising results for the American people. Following the ECIP investment, participants originated a total of \$58.3 billion in loans, of which more than one third was to the most underserved borrowers, based on data through December 2023. This constituted a significant increase in both total lending and lending to underserved borrowers above their pre-ECIP baseline, even as interest rates rose. And since receiving their ECIP investments, participants have steadily increased both the amount and percentage of their lending to underserved borrowers.

The Draft Report

The Draft Report analyzes Treasury's work to implement ECIP rapidly in the midst of the pandemic. Treasury created the program from scratch, developed policies and procedures, promulgated regulations, issued application forms and guidance, and made decisions on investments less than one year after the statute was enacted. We are pleased that the Draft

Appendix 2: Management Response

Report confirms that Treasury accurately allocated its investments, appropriately incorporated internal controls, and followed its established investment decision-making process.

Treasury appreciates OIG's work on this engagement.

Sincerely,



Jessica Milano
Chief Program Officer

Appendix 3: Major Contributors to This Report

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Appendix 4: Report Distribution

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