



Audit Report



OIG-19-038

Domestic and International Assistance Programs

Audit of ASI Federal Credit Union's CDFI Program Awards

July 11, 2019

Office of Inspector General
Department of the Treasury

Contents

| | |
|---|----|
| Audit Report | 1 |
| Results in Brief | 2 |
| Background | 5 |
| ASI Federal Credit Union | 8 |
| Finding | 9 |
| ASI Submitted Invalid Information in Applications for CDFI Certification and CDFI Program Assistance, and Failed to Deploy All HFFI-FA Awards | 9 |
| Recommendations | 22 |

Appendices

| | |
|---|----|
| Appendix 1: Objective, Scope, and Methodology..... | 24 |
| Appendix 2: Schedule of Questioned Cost | 29 |
| Appendix 3: ASI Federal Credit Union Management Response..... | 30 |
| Appendix 4: CDFI Fund Management Response..... | 34 |
| Appendix 5: Major Contributors to This Report..... | 36 |
| Appendix 6: Report Distribution..... | 37 |

Abbreviations

| | |
|---------------------------|--|
| ASI | ASI Federal Credit Union |
| Assistance Agreements | <i>Community Development Financial Institutions Fund Assistance Agreement(s)</i> |
| Assistance Applications | <i>CDFI Program Combined Application</i> for fiscal years 2006 through 2009, and <i>CDFI Program Combined Application Financial Assistance (FA) and Technical Assistance (TA)</i> for fiscal years 2011 and 2012 |
| Census | United States Census Bureau |
| Certification Application | <i>2005 CDFI Certification Application</i> |
| CDFI | Community Development Financial Institution |
| CDFI Fund | Community Development Financial Institutions Fund |
| FA | Financial Assistance |
| FY | fiscal year |
| HFFI | Healthy Food Financing Initiative |

| | |
|-------|---|
| HUD | Department of Housing and Urban Development |
| JAMES | Joint Audit Management Enterprise System |
| LITP | Low Income Targeted Population |
| MCIF | Marketing Consumer Information Files |
| MSA | Metropolitan Statistical Area |
| OIG | Office of Inspector General |
| OTP | Other Targeted Population |
| TA | Technical Assistance |

This Page Left Intentionally Blank.

*The Department of the Treasury
Office of Inspector General*

July 11, 2019

Jodie Harris
Director, Community Development Financial Institutions Fund

This report presents the results of our audit of ASI Federal Credit Union's (ASI) awards under the Community Development Financial Institutions (CDFI) Fund's CDFI Program, which included Healthy Food Financing Initiative (HFFI) awards. Our overall objective was to determine whether ASI used funds appropriately and in accordance with its *Community Development Financial Institutions Fund Assistance Agreement(s)* (Assistance Agreements). As part of our audit, we also assessed whether ASI submitted valid information in its applications for technical assistance (TA), and financial assistance (FA), to include HFFI-FA. The scope of our audit included ASI's December 2005 *CDFI Certification Application* (Certification Application),¹ Assistance Applications for fiscal years (FY) 2006 through 2009, 2011, and 2012,² and Assistance Agreements for 2006 through 2009, 2011, and 2012. This comprised awards totaling \$12,595,432 (\$7,298,806 FA, \$5,000,000 HFFI-FA, and \$296,626 TA). Appendix 1 provides more detail of our audit objective, scope, and methodology.

¹ A certified CDFI is a non-governmental, specialized financial institution that works in low-income communities or serves individuals or businesses that lack access to mainstream financial institutions. To become a certified CDFI, an applicant must submit a Certification Application for approval by the CDFI Fund.

² CDFI Fund's fiscal year begins on October 1 and ends September 30 of the following calendar year. Assistance Applications within the scope of this audit were titled the *CDFI Program Combined Application* for CDFI Fund's FY 2006 – FY 2009 and the *CDFI Program Combined Application Financial Assistance (FA) and Technical Assistance (TA)* for CDFI Fund's FY 2011– FY 2012. ASI submitted a FY 2010 Assistance Application that did not meet the CDFI Fund's minimum scoring requirements to receive further consideration for an award, and as such, was not within the scope of this audit.

Results in Brief

In brief, we found that ASI generally complied with the terms of its 2006, 2007, and 2008 Assistance Agreements for TA funds awarded. That is, ASI was awarded a total of \$296,626 that were used for approved expenses. Although we did not identify any noncompliance in ASI's use of its TA awards, we found that ASI submitted invalid information in its Certification Application and Assistance Applications. That is, ASI management in place at the start of our audit (hereinafter referred to as ASI's former management) provided data that did not support the target market contribution percentages³ in its applications. ASI was required to direct at least 60 percent of its financial activities to at least one eligible "Targeted Population."⁴ In an attempt to support these percentages, additional information was provided in June 2018 by ASI officials.⁵ However, this supplemental information did not support ASI's original target market contribution percentages. ASI officials also informed us of the steps former management took to classify its members as low income that were not disclosed in ASI's Certification Application. Still, ASI officials could not support these steps and the rationale for applying them. Therefore, we found these steps to be unsupported and unreasonable. As such, the CDFI Fund certified ASI as a CDFI in January 2006 based on invalid information.

ASI continued to include invalid target market information in its FYs 2006 through 2009, 2011, and 2012 Assistance Applications and failed to provide specific information on the target market approved by the CDFI Fund in January 2006. Furthermore, ASI incorporated unapproved geographic areas and Other Targeted Populations

³ In its Certification Application, ASI specified that its target market included Low Income Targeted Population (LITP) members living in the New Orleans-Metairie-Kenner Metropolitan Statistical Area (MSA), Houma-Bayou Cane-Thibodaux MSA, and the non-metro portion of Louisiana. See footnote 4 for the definition of LITP.

⁴ Targeted Population is defined as either (1) LITP – for a specified geographic unit, individuals whose family income is not more than 80 percent of the metropolitan area median family income or the greater of 80 percent of the non-metropolitan area median family income or 80 percent of the statewide non-metropolitan area median family income, or (2) Other Targeted Populations as defined in footnote 6.

⁵ ASI's executive management changed in June 2016.

(OTP)⁶ in its target market in its FYs 2009, 2011, and 2012 Assistance Applications. We also identified \$2.85 million of ASI's \$5 million HFFI-FA awards (or 57 percent) that was not deployed at all during the Performance Periods⁷ stated in ASI's 2011 and 2012 Assistance Agreements.

In all, we questioned all \$12,298,806 of ASI's FA and HFFI-FA awards received in FY 2006 through FY 2009, FY 2011, and FY 2012 because (1) the information in ASI's Certification Application was unsupported and steps taken to categorize member's income classifications was unreasonable; (2) ASI included unapproved geographic areas and OTP as part of its target market in its FYs 2006 through 2009, 2011, and 2012 Assistance Applications that were unallowable; and (3) ASI failed to deploy all HFFI-FA awards, which violated its FY 2011 and FY 2012 Assistance Agreements. These are conditions under which the CDFI Fund may find ASI in default. See appendix 2 for the definition of a questioned cost included as part of the schedule of questioned cost.

While ASI's FY 2013 Certification Application and Assistance Application were not within the scope of this audit, we believe it would be prudent of CDFI Fund management to review these applications to determine if ASI was eligible to receive an FA award of \$1,347,000 during 2013, and if funds were used in accordance with its 2013 Assistance Agreement.

We recommend that the Director of the CDFI Fund determine whether ASI was in default of its 2006 through 2009, 2011, and 2012 Assistance Agreements as a result of submitting invalid information in its Certification Application and Assistance Agreements for FYs 2006 through 2009, 2011, and 2012, and its failure to deploy all HFFI-FA awards; and as such, take appropriate action to include: requiring ASI to reimburse the CDFI Fund all FA and HFFI-FA awards, and suspending or revoking ASI's CDFI certification. Furthermore, we recommend that management

⁶ Other Targeted Populations – for a specified geographic unit, populations that are: African-American, Hispanic, Native American, Native Alaskan, Native Hawaiian, Other Pacific Islander (residing in Other Pacific Islands) or alternative demographic group(s) that is approved by the CDFI Fund on a case-by-case basis.

⁷ For FA and HFFI-FA awards, ASI's Performance Periods comprised three years beginning on the effective date stated in its Assistance Agreements.

re-evaluate ASI's FY 2013 Certification Application and FY 2013 Assistance Application to determine if the information submitted was valid and complete; and if ASI met the eligibility requirements for CDFI re-certification and to receive its \$1,347,000 FA award.

As part of our reporting process, we provided ASI management an opportunity to comment on drafts of this report. This report includes consideration of all comments and additional information provided. In its official written response,⁸ ASI management did not agree with the report's findings and conclusions. Regarding ASI's CDFI certification, the response stated that ASI management worked closely with the CDFI Fund to ensure certification applications were complete and met requirements and guidelines. Management's position was that the audit report chose to disregard significant correspondence between ASI and the CDFI Fund and other documentation to evidence the involvement of the CDFI Fund in the application process. With respect to the CDFI Program assistance, ASI management maintained that its information was accurate and asserted that the Office of Inspector General (OIG) developed and applied its own methodology to the same dataset with results that were substantially different. The response also acknowledged ASI's inability to find underlying data used in completing its applications. However, management stated that it was able to recreate it and believed that it showed material compliance within the standards established by the CDFI Fund at that time. Lastly, the ASI management acknowledged that it had not deployed all HFFI-FA awards but that former management notified the CDFI Fund, which granted an extension through an Amendment to the Assistance Agreement. Management believed that the audit disregarded the amended agreement. In all, ASI management believed that the OIG relied on insufficient and unsubstantiated data and that the report failed to acknowledge the correspondence with the CDFI Fund. ASI management's response, in its entirety, is included as appendix 3 of this report.

Based on our evaluation of ASI management's response, the findings and conclusions of our audit have not changed. Furthermore, the response reflects a fundamental misunderstanding of our audit process as reflected in our audit objectives, scope and

⁸ ADAMS AND REESE, LLP, provided a letter on behalf of ASI management to serve as its official response.

methodology in appendix 1. That is, all data and other documented information provided to us during the audit were considered and evaluated. We did not develop and apply a methodology to the dataset separate from that in ASI's CDFI certification application. However, we identified significant discrepancies in ASI's methodology as described in this report. It was the responsibility of ASI management to support its methodology and the underlying data used in its application for CDFI certification and financial assistance. Furthermore, email correspondence provided by ASI during the audit did not include the CDFI Fund's position on the validity of information and methods used by ASI when determining its target market contribution levels. With respect to ASI's HFFI-FA awards, the CDFI Fund confirmed that it did not execute any amendments to its agreement with ASI to extend the period of performance. In all, we have worked with ASI management during the course of the audit and concluded that it was unable to provide documentation sufficient to support the decisions and actions taken with respect to ASI's CDFI certification and financial assistance awards.

After incorporating ASI management's response, we provided a draft of this report to CDFI Fund management for comment. In a written response, CDFI Fund management concurred with our recommendations but did not provide planned corrective actions as part of its response. That said, management will need to identify its specific corrective actions with due dates for implementation in the Joint Audit Management Enterprise System (JAMES), Treasury's audit recommendation tracking system. CDFI Fund management's response, in its entirety, is included as appendix 4 of this report.

Background

The CDFI Fund was established as part of the Riegle Community Development and Regulatory Improvement Act of 1994.⁹ The CDFI Fund's mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers. The CDFI Fund administers

⁹ Public Law 103-325, 108 Stat. 2160; September 23, 1994.

programs that provide monetary award and tax credit incentives to attract private investment in distressed communities. The CDFI Program is a competitive award program that provides assistance to financial institutions that focus on serving low income individuals, historically underserved demographic populations, and distressed communities.

The CDFI Program awards FA and TA to support and enhance the ability of organizations to meet the needs of the communities they serve. TA helps CDFIs and non-CDFIs seeking CDFI certification build organizational capacity. FA awards may be in the form of loans, grants, equity investments, deposits, and credit union shares, which CDFIs are required to match dollar-for-dollar with non-federal funds.¹⁰ This enables CDFIs to multiply the impact of Federal investment to meet the demand for affordable financial products in economically distressed communities. HFFI-FA awards are intended for CDFIs to invest in businesses that provide healthy food options within communities that have limited access to affordable and nutritious food. Applicants must receive CDFI certification from the CDFI Fund in order to apply for FA and HFFI-FA awards.

CDFI certification is a designation given by the CDFI Fund that is generally effective for three years (or other period set by the CDFI Fund) unless otherwise terminated. Certification is the primary eligibility factor to receive FA awards through the CDFI Program. To be eligible, an applicant must (1) be a legal entity; (2) have a primary mission of promoting community development; (3) be a financial institution; (4) provide development services along with financing activities; (5) serve one or more target market(s); (6) maintain accountability to its defined target market(s); and (7) be a non-government entity and not under the control of any government entity.

To become certified, the CDFI Fund requires that an applicant direct at least 60 percent of its financial product activities to a

¹⁰ Matching funds were waived for FY 2009 through FY 2011 award rounds.

target market made up of at least one eligible “Investment Area”¹¹ or “Targeted Population.” In its CDFI Certification Application, the applicant must report these target market contribution percentages associated with both the cumulative count of financial institution customers and cumulative dollar or share value of financial products/services held by those financial institution customers. The applicant must also describe the methodology it used to calculate its target market contribution percentages.

In reviewing Certification Applications, the CDFI Fund relies on financial institutions’ self-reported information to determine whether the 60 percent requirement was met. Regarding the calculation of target market percentages, the CDFI Fund does not prescribe any particular methodology; however CDFI Fund personnel review and ultimately approve or disapprove the application based on the methodology described in the application and other relevant factors. Target market requirements ensure that CDFI Program funding is awarded to financial institutions that serve the people and communities consistent with the CDFI Fund’s mission.

A financial institution that applies for CDFI Program assistance is required to provide, among other things, a narrative about its target market in its Assistance Application. If awarded FA and/or TA, the applicant must sign an Assistance Agreement prior to receiving the funds. The Assistance Agreement sets forth certain required terms and conditions of the award, which include but are not limited to: (i) the amount of the award; (ii) the type of award; (iii) the approved uses of the award; (iv) the approved target market to which the funded activity must be targeted; (v) performance goals and measures; and (vi) reporting requirements.

The Director of the CDFI Fund administers the CDFI Program.

¹¹ An Investment Area must have met at least one of the following economic distress criteria and had significant unmet needs for financial products and services; or were wholly located within an Empowerment Zone or Enterprise Community (as designated under section 1391 of the Internal Revenue Code of 1986). The distress criteria are poverty rate greater than 20 percent, median family income at 80 percent or below applicable benchmarks, or unemployment rate 1.5 times the national average.

ASI Federal Credit Union

ASI was established in 1961 to serve workers of the Avondale Shipyard Inc. located in New Orleans, Louisiana. Over the years, ASI has grown to become a medium-sized credit union with total assets in excess of \$300 million. As of November 2017, ASI operated 11 branch locations serving approximately 60,000 members¹² in and around the New Orleans metropolitan area. ASI applied for CDFI certification in December 2005 and was approved by the CDFI Fund in January 2006. The CDFI Fund extended ASI's certification in 2009 and then recertified ASI in 2013.¹³ ASI received CDFI Program awards totaling \$12,595,432 from FY 2006 through FY 2012. **Table 1** below summarizes all awards by category.

Table 1

| CDFI Program Awards FY 2006 – FY 2012 | | | | |
|--|-----------------------------|-----------------------------|----------------------------------|---------------------|
| Fiscal Year | Technical Assistance | Financial Assistance | HFFI Financial Assistance | Totals |
| 2006 | \$100,000 | \$485,000 | 0 | \$585,000 |
| 2007 | \$99,308 | \$860,000 | 0 | \$959,308 |
| 2008 | \$97,318 | \$1,000,000 | 0 | \$1,097,318 |
| 2009 | 0 | \$2,000,000 | 0 | \$2,000,000 |
| 2010 | 0 | 0 | 0 | 0 |
| 2011 | 0 | \$1,500,000 | \$3,000,000 | \$4,500,000 |
| 2012 | 0 | \$1,453,806 | \$2,000,000 | \$3,453,806 |
| Totals | \$296,626 | \$7,298,806 | \$5,000,000 | \$12,595,432 |

Source: OIG summary of ASI's Assistance Agreements for 2006 – 2012.

¹² ASI members are individuals that hold a savings account or a checking account.

¹³ ASI received a \$1,347,000 FA award in 2013, which was not within the scope of this audit.

Finding

ASI Submitted Invalid Information in Applications for CDFI Certification and CDFI Program Assistance, and Failed to Deploy All HFFI-FA Awards

We found that ASI's use of TA funds generally complied with the terms of its 2006, 2007, and 2008 Assistance Agreements. That is, ASI was awarded a total of \$296,626 in TA funds which were used for the following approved expense categories: technology, personnel, equipment and other capital expenditures; and training.

Although we did not identify any noncompliance in ASI's use of its TA awards, we found that ASI submitted invalid information in its Certification Application and Assistance Applications. That is, ASI's former management provided data that did not support the target market contribution percentages in its applications. ASI was required to direct at least 60 percent of its financial activities to at least one eligible "Targeted Population." In an attempt to support these percentages, additional information was provided in June 2018 by ASI officials. However, this supplementary information did not support ASI's target market contribution percentages. ASI officials also informed us of the steps former management took to classify its members as low income that were not disclosed in ASI's Certification Application. Still, ASI officials could not support these steps and the rationale for applying them. Therefore, we found former management's steps to be unsupported and unreasonable. The CDFI Fund certified ASI as a CDFI in January 2006 based on invalid information provided by ASI former management.

ASI continued to include invalid target market information in its FYs 2006 through 2009, 2011, and 2012 Assistance Applications and failed to report on the target market approved by the CDFI Fund in January 2006. ASI also incorporated unapproved geographic areas and OTP as part of its target market in its FYs 2009, 2011, and 2012 Assistance Applications that were unallowable. We also identified \$2.85 million of ASI's \$5 million HFFI-FA awards (or 57 percent) that was not deployed at all during the Performance

Periods stated in ASI's FY 2011 and FY 2012 Assistance Agreements.

In all, we questioned \$12,298,806 of ASI's FA awards (\$7,298,806) and HFFI-FA awards (\$5,000,000). The following provides details of ASI's Certification Application, Assistance Applications, and deployment of HFFI-FA awards.

CDFI Certification Application

As described in detail below, ASI was unable to support the information used to calculate its target market contribution percentages in its Certification Application. ASI also applied steps to classify its members as low-income that we found unsupported and unreasonable.

ASI specified that its target market included Low Income Targeted Population (LITP) members living in the New Orleans-Metairie-Kenner Metropolitan Statistical Area (MSA), Houma-Bayou Cane-Thibodaux MSA, and the non-metro portion of Louisiana. These geographic areas collectively formed the target market that ASI applied for, which accounts for the physical location of its LITP. ASI also reported the total number of members and associated financial products in each area of its target market, as well as, the percentage of those members that met the LITP criteria. ASI reported these percentages as its target market contribution percentages as illustrated in **Table 2**.

Table 2

| ASI's Target Market Contribution Percentages | | | |
|---|--|---------------------------------------|------------------|
| Financial Products/Members /Member Accounts | New Orleans-Metairie-Kenner MSA | Houma-Bayou Cane-Thibodaux MSA | Non-Metro |
| Number of Loans | 79.25% | 73.77% | 63.50% |
| Loan Balances | 64.30% | 62.66% | 60.18% |
| Number of Deposit Accounts | 77.94% | 65.57% | 60.13% |
| Deposit Account Balances | 62.91% | 64.36% | 62.09% |
| Number of Members | 83.48% | 73.24% | 64.79% |
| Number of Member Accounts | 79.60% | 63.71% | 60.78% |

Source: OIG summary of ASI's 2005 Certification Application.

We reviewed the data that ASI used to calculate its target market contribution percentages. Data from ASI's internal records included ASI member account information such as addresses, loan/deposit balances, and financial product/service types. Data also included demographic information, or Marketing Consumer Information Files (MCIF) purchased from a third party, which included among other things, member income levels. In describing its methodology for calculating target market contribution percentages, ASI's Certification Application stated that member income levels were used to identify members who fell within its low-income target market.¹⁴ In reviewing all supporting data, we identified a number of discrepancies related to ASI's target market geographic information and LITP as follows.

¹⁴ ASI's 2005 Certification Application stated that income levels were compared to the 2005 Federal Financial Institutions Examinations Council census and Housing and Urban Development estimated median family income limits for relevant MSAs and the non-metro portion of Louisiana, to categorize members as low income. Low income thresholds varied depending on the geographic location within Louisiana. ASI's low income limits (calculated as 80 percent of the 2005 Federal Financial Institutions Examinations Council and Housing and Urban Development median family income limits) for the geographic areas listed in its 2005 Certification Application were as follows: (1) New Orleans-Metairie-Kenner \$40,800; (2) Houma-Bayou Cane-Thibodaux \$38,640; and (3) Non-metro portion of Louisiana - \$31,240.

Target Market Geographic Information

ASI reported its target market contribution percentages in terms of LITP members living in the target market geographic areas of New Orleans-Metairie-Kenner MSA, Houma-Bayou Cane-Thibodaux MSA, and the non-metro portion of Louisiana.

We performed an analysis of ASI's internal records and compared our results to information in its Certification Application. We used ZIP Codes available through the United States Census Bureau (Census) and the Department of Housing and Urban Development (HUD) to categorize ASI member loans, loan balances, number of deposit accounts, deposit account balances, number of members, and number of member accounts into each of the three target market geographic areas. We then compared these categories to the information included in ASI's Certification Application and noted numerous discrepancies. Most significantly, the categories for ASI's non-metro portion of Louisiana differed by as much as 2,825 percent. In the case of New Orleans-Metairie-Kenner MSA, categories differed by as much as 75 percent. Houma-Bayou Cane-Thibodaux MSA differed by as much as 43 percent. In total, all member accounts differed by as much as 66 percent. **Table 3**, on the following page, compares information reported in ASI's application for certification with OIG analysis of its records.¹⁵

¹⁵ ASI records included 506 deposit accounts (with a value of \$175,481) and 167 loan accounts (with a value of \$214,469.10) that did not have valid state and ZIP Code identifiers. As such, it is not possible to determine which geographic area these accounts should be assigned to, and therefore, these accounts were not included in **Table 3**. The number and value of these accounts are less than one percent of the "Target Market Geographic Totals" listed **Table 3**.

Table 3

| | Non-Metro Portion of Louisiana | | | |
|---|--|------------------------------------|-------------------|---------------------------|
| Financial Products/Members/Member Accounts | ASI Certification Application | OIG Analysis of ASI Records | Difference | Percent Difference |
| Number of Loans | 16,668 | 1,256 | 15,412 | 1,227% |
| Loan Balances | \$110,647,520 | \$5,637,987 | \$ 105,009,533 | 1,863% |
| Number of Deposit Accounts | 79,870 | 4,124 | 75,746 | 1,837% |
| Deposit Account Balances | \$132,892,071 | \$5,635,943 | \$ 127,256,128 | 2,258% |
| Number of Members | 53,016 | 2,815 | 50,201 | 1,783% |
| Number of Member Accounts | 157,381 | 5,380 | 152,001 | 2,825% |
| | New Orleans-Metairie-Kenner MSA | | | |
| Number of Loans | 7,350 | 26,027 | (18,677) | (72%) |
| Loan Balances | \$34,561,335 | \$129,847,741 | \$ (95,286,406) | (73%) |
| Number of Deposit Accounts | 41,720 | 112,765 | (71,045) | (63%) |
| Deposit Account Balances | \$39,004,285 | \$158,864,568 | \$ (119,860,283) | (75%) |
| Number of Members | 28,707 | 68,166 | (39,459) | (58%) |
| Number of Member Accounts | 84,202 | 138,792 | (54,590) | (39%) |
| | Houma-Bayou Cane-Thibodaux MSA | | | |
| Number of Loans | 1,197 | 1,625 | (428) | (26%) |
| Loan Balances | \$10,459,729 | \$11,323,722 | \$ (863,993) | (8%) |
| Number of Deposit Accounts | 4,978 | 5,418 | (440) | (8%) |
| Deposit Account Balances | \$9,003,730 | \$9,266,774 | \$ (263,044) | (3%) |
| Number of Members | 3,595 | 3,449 | 146 | 4% |
| Number of Member Accounts | 10,078 | 7,043 | 3,035 | 43% |
| | Target Market Geographic Totals | | | |
| Number of Loans | 25,215 | 28,908 | (3,693) | (13%) |
| Loan Balances | \$155,668,584 | \$146,809,450 | \$ 8,859,134 | 6% |
| Number of Deposit Accounts | 126,568 | 122,307 | 4,261 | 3% |
| Deposit Account Balances | \$180,900,086 | \$173,767,285 | \$ 7,132,801 | 4% |
| Number of Members | 85,318 | 74,430 | 10,888 | 15% |
| Number of Member Accounts | 251,661 | 151,215 | 100,446 | 66% |

Source: OIG analysis of ASI's data and Certification Application

In June 2018, ASI officials told us that ASI's former management used ZIP Codes from ASI's records to identify members who resided in one of these target market geographic areas. We were also provided two lists of ZIP Codes that were used to identify members living in either the New Orleans-Metairie-Kenner MSA or Houma-Bayou Cane-Thibodaux MSA. Members with ZIP Codes that were not on one of these lists were categorized as living in ASI's non-metro portion of Louisiana. ASI officials did not know the source(s) used by former management to populate the two lists of ZIP Codes for the New Orleans-Metairie-Kenner MSA and Houma-Bayou Cane-Thibodaux MSA.

To verify the completeness and accuracy of all ZIP Codes provided on the two lists, we compared them to the data available through the Census and HUD.¹⁶ We identified significant discrepancies between ASI's categorization of ZIP Codes included in the New Orleans-Metairie-Kenner MSA and the Houma-Bayou Cane-Thibodaux MSA and the ZIP Codes recognized by Census and HUD for these two MSAs. Most significantly, we found that ASI did not include 67 ZIP Codes that were located in the New Orleans-Metairie-Kenner MSA on its list for this MSA. Based on the methodology used by ASI's former management, members located in these ZIP Codes were categorized as part of the non-metro portion of Louisiana. As noted in **Table 3**, there were significant discrepancies in the categories listed for the non-metro portion of Louisiana and the New Orleans-Metairie-Kenner MSA.

Overall, ASI could not support the target market contribution percentages in its Certification Application because ASI could not provide the source(s) used to categorize ZIP codes. Moreover, ASI's categorization of ZIP Codes differed from Census and HUD ZIP Codes, which had a significant impact on the geographic target market information in ASI's Certification Application. Because low income thresholds vary depending on the geographic location of a member, the geographic location has to be accurate.

¹⁶ The "2005 Historical Delineation File" for counties with metropolitan and micropolitan statistical area codes, available through Census, was used to identify parishes located in the metropolitan statistical areas within Louisiana. In addition, "HUD USPS ZIP Code Crosswalk Files" were used to identify the ZIP Codes located within Louisiana parishes. The "Batch Geocoding Process" available through the Census website was used to assign member addresses to the appropriate parish and MSA when portions of the ZIP Code fall within more than one parish boundary.

Low Income Targeted Population

In addition to the unsupported categorization of ZIP Codes, ASI applied two steps to classify its members as part of LITP that were not disclosed in its Certification Application. First, we identified 22,863 of 78,229 members (approximately 30 percent) with deposit accounts and 4,801 of 23,832 members (approximately 20 percent) with loan accounts listed in the MCIF lacked income classifications. Although these members were not specifically classified as low income, ASI included these members and their associated financial products in its target market contribution percentage calculations. ASI officials told us that former management assumed these members were low income because MCIF income information was collected using public records that must be verified three times by the third party to populate income classifications. The absence of income classifications indicated that members tried to access credit less than three times in their lifetime. However, correspondence between ASI's former management and the MCIF vendor did not support this. In October 2005, former ASI management had inquired of the MCIF vendor whether or not this assumption could be supported. The MCIF vendor responded that this assumption could not be supported because the data on income could be missing for many reasons and not just because they could be potentially low-income. Nevertheless, ASI's former management included all members with unknown income classifications as low income in its calculation of target market contribution percentages in its 2005 application for certification. We concluded that it was unreasonable for ASI to classify members with unknown incomes as low-income given that the MCIF vendor did not agree with former management's assumptions.

According to ASI officials, the second step that former management applied was to adjust the MCIF income levels of members that had incomes above ASI's 2005 LITP limits.¹⁷ Specifically, ASI's former management compared MCIF income classifications to ASI's income records for each of its members, and chose to rely on the lower of the two values. In March 2017,

¹⁷ 2005 LITP limits for each geographic area are defined in footnote 14.

ASI officials estimated that former management downgraded income classifications of approximately 35 percent of its members whose income levels were above ASI's 2005 LITP limits to income levels below the limit in its calculation of target market contribution percentages. While ASI officials provided an explanation of former management's downgrade of income classifications, no evidence was provided to support that ASI in fact applied this step. That is, additional documentation provided in June 2018 did not support the number of members who were downgraded and the rationale for their downgrades. Furthermore, ASI officials could not provide former management's rationale for only lowering incomes and not raising any.

Overall, we found the steps that ASI officials stated former management took with regard to income classifications to be unreasonable given that (1) the MCIF vendor did not support the assumptions used to classify unknown incomes as low income, and (2) ASI officials could not provide the rationale and support for the downgrade of members' income classifications. ASI was required to describe the methodology used to calculate target market contribution percentages in its Certification Application, and the steps described above were not included. Accordingly, we find the nondisclosure of such steps to be significant because the CDFI Fund relied on ASI's description of its methodology used to calculate its target market contribution percentages as the basis for certification.

CDFI Program FY 2006 – FY 2009, FY 2011, and FY 2012 Assistance Applications

In January 2006, the CDFI Fund approved ASI's Certification Application. The approval letter stated, "The Fund has determined that ASI Federal Credit Union's Target Market consists of a Low-Income Targeted Population comprised of Low-Income individuals and families residing in the following areas in the State of Louisiana: Evangeline, Orleans, St. Charles, and St. Tammany

Parishes; and select Census Tracts in Kenner and Westwego.”¹⁸ To amend its target market, a CDFI must request approval from the CDFI Fund. The CDFI Fund will then review the request and determine whether an organization continues to meet CDFI certification requirements. According to a CDFI Fund official, “the CDFI Program funding application is not an avenue to revise the target market.” The request to change a certified CDFI’s target market is a separate process from the funding application process.

We noted the following discrepancies in ASI’s Assistance Applications for FY 2006 through FY 2009, FY 2011, and FY 2012.

FY 2006 and FY 2007

Despite being approved for a smaller target market geographic area, ASI continued to include the broader geographic area in its target market contribution percentages (see tables 2 and 3 above) in its FY 2006 and FY 2007 Assistance Applications. Both applications stated that “ASI’s target market is composed of three distinct geographic regions: (1) the Metairie-Kenner-New Orleans MSA, (2) the Houma-Bayou Cane-Thibodaux MSA, and (3) the Non-Metro Portion of ASI’s Membership.”

A CDFI Fund official stated that discrepancies between the approved target market and that described in ASI’s FY 2006 and FY 2007 applications were noted. However, there was no need to remedy the discrepancies because ASI was notified through its certification approval letter of its approved target market. ASI officials stated that no one from ASI was aware that there were discrepancies. Furthermore, ASI officials noted that they were either not at ASI at the time of the original and subsequent application submissions, or were not involved in the CDFI application process.

¹⁸ According to Census, “Census Tracts are small, relatively permanent statistical subdivisions of a county or equivalent entity that are updated by local participants prior to each decennial census. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data.” ASI’s approved target market geographic area included a total of 40 census tracts located in the New Orleans-Metairie-Kenner MSA.

ASI did not request and receive approval to amend its target market to include the broader target market geographic area. As such, ASI's inclusion of an unapproved geographic area in its target market contribution percentages was unallowable.

FY 2008

In its FY 2008 Assistance Application, ASI again failed to report target market contribution percentages for the specific census tracts and parishes approved by the CDFI Fund in January 2006. Instead, the FY 2008 application described ASI's target market as comprising two distinct geographic regions: the New Orleans-Metairie-Kenner MSA and the Houma-Bayou Cane-Thibodaux MSA. Different from the FY 2006 and FY 2007 Assistance Applications, the non-metro portion of Louisiana was not included. Regarding the New Orleans-Metairie-Kenner MSA, ASI stated in its application that "At the time of CDFI certification in 2006, 28,707 (just over 1/3rd) of ASI's members resided in this MSA. Today, the majority of ASI's members live in or just outside of the metro area." As noted in **Table 3** above, ASI's records indicated that 68,166 members, and not the 28,707 stated in its Certification Application, resided within this MSA. Further, ASI reported in its FY 2008 Assistance Application that, according to an extensive research project it conducted in 2007, its total membership was 94,325. However ASI records that we reviewed showed that membership in 2007 was actually 73,540, which was 22 percent lower than what ASI reported.

ASI did not request and receive approval to amend its target market geographic area. As such, deviations from the CDFI Fund's approved geographic area in its target market contribution percentages was unallowable. In addition, the information that ASI's former management reported about its membership numbers in the FY 2008 Assistance Application was unsupported.

FY 2009, FY 2011, and FY 2012

In its FY 2009, FY 2011, and FY 2012 Assistance Applications, ASI also did not report target market contribution percentages for the specific census tracts and parishes approved by the CDFI Fund in January 2006. Beginning with the FY 2009 application, ASI no

longer reported target market contribution percentages by geographic area. Instead, it proposed that its target market be expanded to include "Latino and African-American households" and included these OTP in its reported target market contribution percentages.

Further, ASI reported that its total number of members were 83,802, 90,380 and 93,421 for FYs 2009, 2011 and 2012, respectively. However, ASI's records showed that the actual number of members were 74,633 (11 percent less than reported), 72,043 (20 percent less than reported), and 65,867 (29 percent less than reported) for those years, respectively.

Since ASI did not request and receive approval to amend its target market, the inclusion of OTP was unallowable. In addition, the information that former ASI management reported about its membership numbers in the FYs 2009, 2011, and 2012 Assistance Applications was unsupported.

Deployment of HFFI-FA Awards

In accordance with its 2011 and 2012 Assistance Agreements, ASI was required to deploy 100 percent of its HFFI-FA awards by the end of the three year Performance Periods. Specifically, performance goal 2 of ASI's Assistance Agreements required that:

"At each fiscal year end during the Performance Period, the Awardee must have deployed Financial Products, Financial Services or Development Services for HFFI Activities in its Target Market in an amount equal to: 33% of the total HFFI Financial Assistance by the end of year one of the Performance Period, 66% of the total HFFI Financial Assistance by the end of year two of the Performance Period, and 100% of the total HFFI Financial Assistance by the end of year three of the Performance Period."

HFFI-FA activities are defined in ASI's 2011 and 2012 Assistance Agreements to be "any activity financed by the Awardee that

supports the production, distribution, sale or consumption of healthy food.¹⁹

We found that ASI failed to deploy all HFFI-FA awards as required by its 2011 and 2012 Assistance Agreements. ASI received a total of \$5 million in HFFI-FA in FY 2011 and FY 2012. However, notwithstanding discrepancies identified with ASI's target market contribution percentages as discussed above, ASI only deployed \$1,529,304 of its \$3,000,000 FY 2011 award (51 percent) and \$617,366 of its \$2,000,000 FY 2012 award (31 percent) during the respective Performance Periods. An ASI official noted that because ASI's HFFI-FA loans were limited to a maximum of \$500,000, many potential recipients were not interested, which made it difficult to deploy all of the funds.

Conclusion

Based on the issues identified in this report, we concluded that ASI submitted invalid information in its Certification Application and Assistance Applications for FYs 2006 through 2009, 2011, and 2012. Furthermore, ASI violated its Assistance Agreements with regard to deployment of its HFFI-FA. As such, we question all \$12,298,806 of ASI's FA and HFFI-FA awards received in FYs 2006 through 2009, 2011, and 2012 because (1) the information in ASI's Certification Application was unsupported and steps taken to categorize member's income classifications was unreasonable; (2) ASI included unapproved geographic areas and OTP in its target market contribution percentages in its Assistance Applications for FY 2006 through FY 2009, FY 2011, and FY 2012 that were unallowable; and (3) ASI failed to deploy all HFFI-FA awards, which violated its FY 2011 and FY 2012 Assistance Agreements. These are conditions under which the CDFI Fund may find ASI in default with its Assistance Agreements.

According to Section 6.1 of Article VI of ASI's Assistance Agreements, titled "Events of Default," the CDFI Fund may, in its

¹⁹ ASI's 2011 and 2012 Assistance Agreements define healthy food as " whole foods such as fruits, vegetables, whole grains, fat free or low-fat dairy, and lean meats that are perishable (fresh, refrigerated, or frozen) or canned as well as nutrient-dense foods and beverages encouraged by the 2010 Dietary Guidelines for Americans (DGA)" published by the United States Department of Agriculture.

sole discretion, find the "Awardee" to be in default if either of the following events occurs:

"any representation, warranty, certification, assurance or any other statement of fact set forth in this Assistance Agreement or the Application including, but not limited to, the Assurances and Certifications contained in the Application, or any representation or warranty set forth in any document, report, certificate, financial statement or instrument now or hereafter furnished in connection with the Assistance Agreement, is found by the Fund to be inaccurate, false, incomplete or misleading when made, in any material respect;" or

"the failure of the Awardee to observe, comply with or perform any term, covenant, agreement or other provision contained in the CDFI Program Regulations, this Assistance Agreement including, but not limited to, the Performance Goals, or the Application including, but not limited to, the Assurances and Certifications contained therein or any instrument, note or any other document delivered to the Fund in connection with or pursuant to the Assistance Agreement."

If ASI is found to be in default, the CDFI Fund may take a number of sanctions under Section 6.2 of its Assistance Agreement, to include:

"render the Awardee ineligible to apply for additional Assistance from the fund through future funding rounds;" and/or

"require the repayment of any Assistance that has been distributed to the Awardee pursuant hereto."

While ASI's FY 2013 Certification Application and Assistance Application were not within the scope of this audit, we believe it would be prudent of CDFI Fund management to review these applications to determine if ASI was eligible to receive an FA award of \$1,347,000 and if funds were used in accordance with its 2013 Assistance Agreement.

Recommendations

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

1. Determine whether ASI was in default of its 2006 through 2009, 2011, and 2012 Assistance Agreements as a result of submitting invalid information in its Certification Application and Assistance Applications for FYs 2006 through 2009, 2011, and 2012 and its failure to deploy all HFFI-FA awards; and as such, take appropriate action which may include requiring ASI to reimburse the CDFI Fund all FA and HFFI-FA awards, and suspending or revoking ASI's CDFI certification.

Management Response

CDFI Fund management concurred with this recommendation.

OIG Comment

While CDFI Fund management agreed with our recommendation, management will need to identify its specific corrective action with a due date for implementation in JAMES.

2. Re-evaluate ASI's FY 2013 Certification Application and FY 2013 Assistance Application to determine if the information submitted was valid and complete and if ASI met all eligibility requirements to be re-certified as a CDFI and to receive its \$1,347,000 FA award.

Management Response

CDFI Fund management concurred with this recommendation.

OIG Comment

While CDFI Fund management agreed with our recommendation, management will need to identify its specific corrective action with a due date for implementation in JAMES.

* * * * *

We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the audit. Major contributors to this report are listed in appendix 5. A distribution list for this report is provided as appendix 6. If you have any questions, please contact me at (202) 927-5784 or Paul Harris, Supervisory Program Analyst, at (202) 927-8781.

/s/

Donna Joseph
Deputy Assistant Inspector General for Audit

In October 2014, we initiated an audit of ASI Federal Credit Union's (ASI) awards under the Community Development Financial Institutions (CDFI) Fund's CDFI Program to include Healthy Food Financing Initiative (HFFI) awards. Our overall objective was to determine whether ASI used funds appropriately and in accordance with its *Community Development Financial Institutions Fund Assistance Agreement(s)* (Assistance Agreements). As part of our audit, we also assessed whether ASI submitted valid information in its applications for technical assistance (TA), and financial assistance (FA), to include HFFI-FA.

The scope of our audit included ASI's December 2005 *CDFI Certification Application* (Certification Application), Assistance Applications for fiscal years (FY) 2006 through 2009, 2011, and 2012 (e.g. *CDFI Program Combined Applications* for FY 2006 through FY 2009 and *CDFI Program Combined Application Financial Assistance (FA) and Technical Assistance (TA)* for FY 2011 and FY 2012), and ASI's 2006 through 2009, 2011, and 2012 Assistance Agreements for awards totaling \$12,595,432. This comprised \$296,626 of TA awards, \$7,298,806 of FA awards, and \$5,000,000 of HFFI-FA awards. ASI submitted a FY 2010 Assistance Application that did not meet the CDFI Fund's minimum scoring requirements to receive further consideration for an award. As such, FY 2010 was not within the scope of this audit.

To meet our audit objective, we performed the following procedures.

- We reviewed applicable laws, regulations, policies, and procedures governing the CDFI Program as follows:
 - *Riegle Community Development and Regulatory Improvement Act of 1994* (Public Law No. 103-325, 108 Stat. 2160; September 23, 1994);
 - 12 U.S.C. Section 1805, *Community Development Financial Institutions Program*; and
 - CDFI Fund policies, procedures, and guidance.
- We reviewed documents used to support ASI's Certification Application as follows:
 - ASI's 2005 CDFI Certification Application;

- ASI's loan and deposit portfolios for 2005 through 2008 and 2010 through 2012;
 - Demographic information from a third party's marketing consumer information files;
 - CDFI Fund's CDFI certification review and approval documents;
 - Federal Financial Institutions Examination Council and the Department of Housing and Urban Development's (HUD) estimated metropolitan statistical area/metropolitan division median family income for 2005-2013;
 - United States Census Bureau Historical Delineation File for December 2005;
 - United States Census Bureau map of parishes by MSA;
 - HUD and United States Postal Service ZIP Code crosswalk files;
 - Supplemental information provided June 2018:
 - ZIP Code lists that were used to classify members into the New Orleans-Metairie-Kenner and Houma-Bayou Cane-Thibodaux MSAs when calculating target market geographic information;
 - ASI's summary methodology to recalculate the target market geographic information;
 - loan and deposit spreadsheets with the recalculation of target market geographic information; and
 - internal and external e-mail correspondence of ASI.
- We reviewed documents used to support ASI's FY 2006 through FY 2009, FY 2011, and FY 2012 Assistance Applications and CDFI Program awards as follows:
 - CDFI Program Notice of Fund's Availability publications for FY 2006 through FY 2009, FY 2011, and FY 2012;
 - CDFI Program Combined Applications for FY 2006 through FY 2009;
 - CDFI Program Combined Application Financial Assistance (FA) and Technical Assistance (TA) for FY 2011 and FY 2012;

- CDFI Program award disbursement support; and
 - ASI's 2006 through 2009, 2011, and 2012 Assistance Agreements.
- We reviewed documents to support ASI's use of CDFI Program awards as follows:
 - *ASI FCU General Operating Procedure – Certification, Recertification, Grant Applications, Grant Awards, and Deployment/Community Development Financial Institutions Fund (CDFI Fund)*;
 - ASI's vendor invoices, vouchers, payroll records, and *Business Loan Receipts*;
 - ASI loan justifications for HFFI-FA loan recipients;
 - CDFI Fund persistent poverty county publications;
 - The United States Department of Agriculture (USDA) food desert designations by recipient location; and
 - *USDA Dietary Guidelines for Americans 2010*.
 - We reviewed documents used to support ASI's compliance with CDFI Program awards as follows:
 - ASI's "Annual Report" components for awards connected with CDFI Program funding rounds from FY 2006 through FY 2009, FY 2011, and FY 2012. This included the following components: ASI's original and amended Single Audit Reports, Institution Level Reports, Transaction Level Reports, Uses of Financial Assistance Reports (Schedule 7-C), Uses of Technical Assistance Reports (Schedule 7-F), and Financial Status Reports (SF-425, formerly SF-269-A);
 - *ASI National Credit Union Administration Call Reports Form 5300* ;
 - CDFI Fund compliance determinations from the Records Management System; and
 - CDFI Fund award termination memorandums for ASI's FYs 2006, 2007, and 2008 awards.

In addition, we interviewed key personnel at the CDFI Fund and ASI as follows:

- CDFI Fund personnel
 - Program Manager for CDFI Program and Native Initiatives;
 - Associate Program Managers for CDFI Program and Native Initiatives;
 - Program Manager for Certification, Compliance Monitoring, and Evaluation;
 - CDFI Fund Program Advisor for Certification, Compliance Monitoring, and Evaluation;
 - CDFI Fund Management Analyst for Certification, Compliance Monitoring, and Evaluation;
 - CDFI Fund Compliance and Certification Officer;
 - Program Manager for Financial Strategies and Research;
 - CDFI Fund Research Analyst; and
 - CDFI Fund Senior Advisor.

- ASI personnel
 - Former President and Chief Executive Officer (interviewed between February 2015 and April 2015);
 - President and Chief Executive Officer (interviewed between February 2017 and October 2017);
 - Former Chief Financial Officer/Senior Vice President (interviewed between February 2015 and April 2015);
 - Chief Information Officer;
 - Commercial Lending Manager; and
 - Vice President of Operations.

We performed our fieldwork between October 2014 and July 2018. This included a site visit to ASI headquarters in Harahan, Louisiana, where we interviewed key personnel; and conducted site visits to eight of ASI's HFFI loan recipients located in and around the city of New Orleans, Louisiana.

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.

A questioned cost is a cost that is questioned by the auditor because of an audit finding: (1) which resulted from an alleged violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. Questioned costs are to be recorded in the Joint Audit Management Enterprise System. The questioned costs will also be included in the next Office of Inspector General Semiannual Report to Congress.

| <u>Recommendation Number</u> | <u>Questioned Cost</u> |
|------------------------------|------------------------|
| Recommendation 1 | \$12,298,806 |

The questioned cost relates to funds that the Community Development Financial Institution (CDFI) Fund awarded to ASI Federal Credit Union (ASI) under the CDFI Program in fiscal years (FY) 2006 through 2009, 2011, and 2012. The questioned amount is comprised of \$7,298,806 in financial assistance (FA) and \$5,000,000 in Healthy Food Financing Initiative (HFFI) FA awards. As discussed in the audit report, the total questioned cost resulted from ASI submitting invalid information in its Certification Application and its *Community Development Financial Institutions Fund Assistance Agreement(s)* (Assistance Agreements) for fiscal years (FY) 2006 through 2009, 2011, and 2012. That is, (1) the information in ASI's Certification Application was unsupported and steps taken to categorize member's income classifications was unreasonable; (2) ASI included unapproved geographic areas and OTP in its target market contribution percentages in its Assistance Applications for FY 2006 through FY 2009, FY 2011, and FY 2012 that were unallowable; and (3) ASI failed to deploy all HFFI-FA awards, which violated its FY 2011 and FY 2012 Assistance Agreements.

Appendix 3
ASI Federal Credit Union Management Response

ADAMS AND REESE LLP

December 19, 2018

VIA – EMAIL: josephd@oig.treas.gov

Ms. Donna Joseph
Deputy Assistant Inspector General
Audit Department of the Treasury
Washington, D.C. 20220

Attorneys at Law

Alabama
Florida
Georgia
Louisiana
Mississippi
South Carolina
Tennessee
Texas
Washington, DC

Phillip Buffington, Jr.
Direct: 601.292.0745
E-Fax: 601.944.9357
phl.buffington@arlaw.com

Re: ASI Federal Credit Union, New Orleans, Louisiana; OIG Audit Report

Dear Ms. Joseph:

We are submitting this letter On behalf of Management of ASI Federal Credit Union (“ASI”), New Orleans, Louisiana. ASI is in receipt of your November 26, 2018, letter and revised audit for the Community Development Financial Institutions (“CDFI”) Fund’s Program in connection with funds awarded to ASI for certain years. On behalf of ASI, this letter shall represent an official response from ASI’s Management regarding the proposed audit findings.

Thank you for the opportunity to review the above-referenced audit report draft on the ASI Awards under the CDFI program. ASI has reviewed the draft audit report performed as part of the treasury’s ongoing oversight of programs, projects and activities authorized by the CDFI program. ASI Management believes that OIG and Management of ASI have worked closely and collaboratively over the last several years to clarify issues in this matter. As both parties have consistently recognized, there are significant challenges to resolving these issues without the benefit of the supporting documentation for the applications. However, both OIG and ASI Management have done an excellent job of trying to overcome those challenges. Ultimately, ASI was unable to agree with the findings and conclusions being presented by OIG in the audit. The paragraphs below will outline ASI’s response to OIG’s revised draft audit report that was received on November 26, 2018.

ASI provides this response to clarify and completely set forth its position on specific recommendations.

ASI has been helping low to moderate income families across Southeast Louisiana for more than 50 years. Following the devastation of Hurricane Katrina, ASI collaborated with the CDFI Fund to obtain CDFI certification, which was granted in 2006. There is no dispute that ASI used the grant funds from CDFI to help low to moderate income families recovering from the storm’s devastation. During OIG’s nearly four-year audit, they found no instances of misused grant funds and no allegations of misuse were ever asserted against ASI.

The OIG report contains several mischaracterizations and inaccuracies. ASI worked closely with the CDFI Fund to ensure certification applications were completed in accordance

1018 Highland Colony Parkway, Suite 800 | Ridgeland, Mississippi 39157 | 601.353.3234 | Fax 601.355.9708
www.adamsandree.com

Appendix 3
ASI Federal Credit Union Management Response

Ms. Donna Joseph
December 19, 2018
Page 2

with CDFI requirements and guidelines. However, OIG in its conclusions in the audit report chose to disregard significant correspondence between ASI and CDFI and other documentation provided by ASI to evidence the involvement of CDFI in the application process. Management of ASI believes that this information clearly shows the collaboration between ASI and CDFI during the application process and should be taken into consideration.

ASI continues to believe it submitted correct information in its applications for CDFI certification and CDFI program assistance. Management would also state that instead of working with ASI to validate the actual methodology it used in the CDFI application process, OIG developed its own methodology to support its own conclusions. Because OIG applied a different methodology to the same dataset, the results were substantively different. The OIG report reflects these differences as inaccuracies which ASI again believes is a mischaracterization of the information. OIG's methodology is not based on regulation or CDFI written policy in place at the time of the 2005 CDFI application. CDFI guidelines at the time allowed credit unions to create and apply their own methodologies for application purposes. ASI sought guidance from CDFI during the application process and believes it receive support and ratification from CDFI for the information it used in the applications.

The information ASI supplied to OIG clearly details the rationale, methods and supporting data for the target market contribution percentages and the applications in question. Although OIG has chosen to disregard this information and the classification submitted by ASI, ASI stands by the accuracy of the applications. During the application process, ASI regularly requested information from the CDFI to ensure the accuracy of all documents and reports. ASI contacted CDFI representatives and officers to gain insight and guidance on requirements on supplemental reports. At no time was ASI turned away for inaccurate or incomplete reports or applications. The applications at the center of these allegations were submitted to the CDFI and approved with target market contribution percentages and the classification of low-income members in January 2006. The information previously submitted in ASI's June 21, 2018, letter along with prior and subsequent data clearly shows the information used by ASI was accurate and substantially complete.

ASI believes there can be no dispute that low- and moderate-income neighborhoods, consistent with CDFI's mission, were properly served by these funds. In addition, there can be no question that the neighborhoods designated in ASI's application, were clearly low- and moderate-income neighborhoods consistent with the determinations made in accordance with the CDFI criteria existing at that time. The data used by OIG was standard reporting information and fails to delve into the details of the information of the customers within the markets served by ASI.

The problems associated with reviewing this information include, but are not limited to, ASI's inability to find the underlying data used in completing the applications for CDFI. However, ASI has been able to recreate the data used to support the application and believes that it clearly shows material compliance within the standards established by CDFI at that time and is consistent with approvals of other institutions.

Appendix 3
ASI Federal Credit Union Management Response

Ms. Donna Joseph
December 19, 2018
Page 3

We agree that ASI has not deployed all HFFI-FA awards as required by the Assistance Agreements. However, former ASI management notified CDFI of their difficulty in lending out the HFFI funds and formally requested an extension from CDFI. CDFI granted the extension to ASI through an Amendment to the Assistance Agreement. Current management is still in contact with CDFI regarding the lack of demand for HFFI loans. ASI holds all of the non-deployed HFFI-FA funds in a restricted liability account as it continues to await instruction from CDFI on how to move forward.

In response to review of a draft audit report provided by OIG, ASI requested that the audit report be amended to make note of ASI's disclosure to and work with CDFI on the HFFI-FA matter. As part of this request, ASI provided OIG with correspondence between ASI and CDFI regarding HFFI-FA fund deployment, the extension letter, and the Amended Award Agreement. This information seems to be completely disregarded by OIG in reaching its conclusions in the audit.

The final report provided to ASI still does not reflect any of the actions taken in good faith by ASI or CDFI's knowledge regarding this matter.

ASI also has several other concerns. In addition to those already mentioned, OIG's audit report contained several inaccuracies. In each instance, ASI provided documentation to correct or clarify commentary in the report. Again, OIG chose to disregard significant documentation and correspondence related to these findings.

Of specific concern to ASI is that OIG failed to meet with former employees of ASI who oversaw the applications in question to further seek verification and clarification of the information submitted. While substantial correspondence was provided to OIG between those former employees and OIG, little weight was given to the submission. ASI firmly believes that the investigation by OIG was incomplete and failed to address key issues submitted by ASI.

While changes in management during the timeframe of the ongoing audit have complicated the historical reporting process, the information submitted to OIG thoroughly explained the data and methodology approved by the CDFI used by ASI in preparing the applications for certification in the years in question. The fact that OIG disregarded the information submitted by ASI to develop its conclusions and based its decisions upon unresearched and unverified information is of great concern. Furthermore, data and the response provided by OIG did not clearly address the issues and applications. Management believes that OIG relied upon general information it compiled that did not address specific submarket data that ASI used in the application process. ASI continues to believe that the information it supplied in its June 21, 2018, letter and the other information provided to OIG clearly establishes that ASI complied with the application process in affect at that time.

The problems associated with reviewing this information include, but are not limited to, the inability of ASI to retrieving data past the record retention date which was used as underlying data for application completion for CDFI. Although some of the data requested was over ten

Appendix 3
ASI Federal Credit Union Management Response

Ms. Donna Joseph
December 19, 2018
Page 4

years old, ASI has been able to recreate the data used to support the application and believes that it clearly shows material compliance within the standards established by CDFI at that time.

It should be noted that ASI has cooperated and worked with CDFI for years. During that period, CDFI has never questioned or had concerns regarding ASI's applications or use of funds. CDFI has recognized ASI a low-income designated credit union serving members in New Orleans and southeast Louisiana. Management believes that ASI's mission is to serve the underserved, promote economic empowerment, and provide affordable financial products and services to those with little or no credit. Management also believes that over 60 percent of its members fall below the poverty level, and it is estimated that ten percent of its members were unbanked prior to joining the credit union. ASI's mission became even more critical following the devastation of Hurricane Katrina. Most members served by ASI experienced substantial personal losses, including homes, businesses, automobiles, and employment opportunities. The funds awarded to ASI by CDFI were used to help those members rebuild after the devastation.

In its history of serving the underserved, ASI has pioneered several products and services catered specifically to those of modest means. All these products have provided a much-needed outlet for the credit union's low-income members who frequently fall victim to the debt trap.

In the event CDFI were to require ASI to repay any awards, the negative impact on the communities that ASI serves would be significant. Management of ASI believes that OIG relied upon insufficient and unsubstantiated data in reaching the conclusions it reached in the audit. The report never took into consideration substantial compliance or non-material deviations in percentages in the application process. In addition, OIG failed to acknowledge and give any weight to ASI's reliance on assistance from CDFI in preparing and submitting the application. ASI Management doesn't not believe there is a reasonable basis for the conclusions OIG reached in its proposed audit.

If you should have any questions or comments concerning this response, please let us know.

Sincerely,

ADAMS AND REESE LLP

/s/Phillip Buffington, Jr.

Appendix 4
CDFI Fund Management Response



COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 20, 2019

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

Re: CDFI Fund Responses to Recommendations in Draft Audit Report – *Audit of ASI Federal Credit Union's CDFI Program Awards*

Dear Ms. Joseph:

At your request, below are the Community Development Financial Institutions Fund's (CDFI Fund's) responses to the recommendations listed in the draft audit report on ASI Federal Credit Union's (ASI) awards under the Community Development Financial Institutions Program (CDFI Program), including Healthy Food Financing Initiative – Financial Assistance (HFFI-FA).

OIG Recommendation 1

The Office of Inspector General (OIG) recommends the CDFI Fund determine whether ASI was in default of its 2006 through 2009, 2011, and 2012 Assistance Agreements as a result of submitting invalid information in its Certification Application and Assistance Applications for fiscal years (FYs) 2006 through 2009, 2011, and 2012 and its failure to deploy all HFFI-FA awards; and as such, take appropriate action which may include requiring ASI to reimburse the CDFI Fund all FA and HFFI-FA awards, and suspending or revoking ASI's CDFI Certification.

Management Response

The CDFI Fund concurs with this recommendation.

OIG Recommendation 2

The OIG recommends the CDFI Fund re-evaluate ASI's FY 2013 Certification Application and FY 2013 Assistance Application to determine if the information submitted was valid and complete, and if ASI met all eligibility requirements to be re-certified as a CDFI and to receive its \$1,347,000 FA award.

Appendix 4
CDFI Fund Management Response

Management Response

The CDFI Fund concurs with this recommendation.

The CDFI Fund appreciates all the work of your staff, and the opportunity to review and provide responses to the recommendations in the report. If you have any questions, please contact Tanya McInnis at 202.653.0309 or mcinnist@cdfi.treas.gov.

Sincerely,



Jodie L. Harris
Director
CDFI Fund

Appendix 5
Major Contributors to This Report

Theresa Cameron, Audit Director
Paul Harris, Supervisory Program Analyst
Sergiu Prisacari, Auditor
James Shepard, Referencer

Department of the Treasury

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

Community Development Financial Institutions Fund

Director
Deputy Director

Office of Management and Budget

OIG Budget Examiner

ASI Federal Credit Union

President and Chief Executive Officer
Chief Financial Officer

National Credit Union Administration Office of Inspector General

Deputy Inspector General

United States Senate

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

United States House of Representatives

Committee on Oversight and Reform
Financial Services Committee



Treasury OIG Website

Access Treasury OIG reports and other information online:

<http://www.treasury.gov/about/organizational-structure/ig/Pages/default.aspx>

Report Waste, Fraud, and Abuse

OIG Hotline for Treasury Programs and Operations – Call toll free: 1-800-359-3898

Gulf Coast Restoration Hotline – Call toll free: 1-855-584.GULF (4853)

Email: Hotline@oig.treas.gov

Submit a complaint using our online form:

<https://www.treasury.gov/about/organizational-structure/ig/Pages/OigOnlineHotlineForm.aspx>