



Audit Report



OIG-16-016

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Community
Development Financial Institutions Fund's Fiscal Years
2015 and 2014 Financial Statements

November 18, 2015

Office of
Inspector General

Department of the Treasury

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 12, 2015

Inspector General
U.S. Department of the Treasury
Washington, DC

Director
Community Development Financial Institutions Fund
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of U.S. Department of the Treasury, Community Development Financial Institutions Fund (the CDFI Fund), as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, we considered the CDFI Fund's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the CDFI Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

During our audit we noted several items involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the attached Appendix A.

The CDFI Fund's written responses to our comments and recommendations (also in Appendix A) have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the CDFI Fund's organization gained during our work to make comments and suggestions that we hope will be useful to you.



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November 12, 2015
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We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of the addressees, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Item 1. Improvements are needed in controls surrounding the CDFI Fund's Disbursement System

Improvements are needed in controls surrounding the CDFI Fund's Disbursement System (System) to prevent or detect and correct unauthorized changes to production data or the application environment as neither the System nor database are structurally designed or coded to enforce segregation of duties.

Management contracted with a third party for development and system support to maintain the System and its databases. Management assigned a third party as the administrator, and permitted the development team to have update privileges within the System production environment.

Once management approves a system change request (SCR), the development team follows Standard Operating Procedures, which require segregation of duties by assigning a team member to each of the four roles within the change management function (develop, test, quality control, and deploy). The system first assigns the SCR to the SCR Manager, who then assigns it to a Developer. The Developer identifies and notates on the SCR ticket respective roles. Due to the small size of the third-party system, contractor team members can perform different roles on different SCRs. However, neither the System nor the database structure enforces any segregation of duties controls to prevent a contractor team member from performing all roles within the change management function. Management further stated that the contractors performing the change management function have database roles/privileges that allow them the ability to access and modify the application logs.

Segregation of duties of the contractors is not enforced through the system which results in the potential for unauthorized system changes to a disbursement in certain scenarios.

Management may not detect and correct unauthorized changes within the System tables on a timely basis, which could lead to unauthorized access, modification, and/or disclosure of the System's production data and application environment.

Recommendations

We recommend that management:

1. Evaluate the existing privileges of the System development team members, including the SCR Manager, and reassign privileges that enforce segregation of duties at the application and database levels; and
2. As appropriate, document the risk assessment and acceptance of any incompatible duties, and implement an effective control to mitigate the risk of unauthorized access and activity (e.g., the implementation of a mechanism and process to log incompatible activities, and independently review the logs on a periodic basis and resolve any violations).

Management's Response

CDFI Fund Management appreciates the opportunity to review and respond to this Notice of Finding and Recommendation (NFR). The CDFI Fund continuously seeks to improve our business applications, and CDFI Fund Management concurs with both recommendations.

1. The CDFI Fund will review, and revise if needed, our current evaluation of existing privileges of the Application Administration team to determine if segregation of duties can be enforced by the system without significantly impacting ongoing operations and maintenance of CDFI Fund business applications.
2. The CDFI Fund will review, and revise if needed, our current documentation of the risk assessment and acceptance of not having the system enforce segregation of duties, and implement effective controls to mitigate the risk of unauthorized access and activity.

Item 2. Cash Flow Reclassification

Management improperly recognized the movements in Purchases of New Investments of \$1,094,000 on the 9/30/2015 Statements of Cash Flows.

Per Financial Accounting Standards Board (FASB) ASC 230-10-45-7, "Generally, information about the gross amounts of cash receipts and cash payments during a period is more relevant than information about the net amounts of cash receipts and payments..."

This error in the statements of cash flows related to an insufficiently granular review of the underlying data elements to identify the appropriate presentation of the substance of the gross amounts of the noted cash flow items.

As a result of the above, there was an initial mischaracterization of two statements of cash flows line items that were presented net and for which management adjusted the statements of cash flows to amend the descriptions and amounts.

Recommendation

We recommend that management evaluate and revise as appropriate the sufficiency of its internal reviews of the financial statements to assure an appropriate level of detail is analyzed to enable management to assign proper description to reflect the substance of the disclosed amounts

Management's Response

Management will offer sufficient training related to FASB standards to broaden staff knowledge in order to provide for a more thorough review of the financial statements at a more detailed level.

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