



Audit Report



OIG-11-079

RECOVERY ACT: The Community Development Financial Institutions Fund Needs to Improve Its Process for Awarding Assistance to Applicants

July 8, 2011

Office of
Inspector General

Department of the Treasury

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Abbreviations

CDFI Fund	Community Development Financial Institutions Fund
FA	financial assistance
NACA	Native American CDFI Assistance
NOFA	Notice of Funds Availability
OIG	Treasury Office of Inspector General
Recovery Act	American Recovery and Reinvestment Act of 2009
TA	technical assistance

*The Department of the Treasury
Office of Inspector General*

July 8, 2011

Donna Gambrell, Director
Community Development Financial Institutions Fund
Department of the Treasury

Title V of the American Recovery and Reinvestment Act of 2009 (Recovery Act) authorized \$100 million in additional funding for the Community Development Financial Institutions (CDFI) Fund's fiscal year 2009 award round.¹ This report presents the results of our audit of the CDFI Fund's process for awarding grants to applicants for assistance during the fiscal year 2009 award round.

We conducted this audit as part of our ongoing oversight of the Department of the Treasury's programs established by, and use of funds authorized by, the Recovery Act. The overall objective of our oversight is to evaluate management's accountability, control, and oversight of Recovery Act funds and make recommendations for improving operations and preventing fraud, waste, and abuse with respect to those funds. Through a series of reports, we will report on the CDFI Fund's accountability, control, and oversight of additional funding provided by the Recovery Act. Our audit objective for this report was to assess the CDFI Fund's process for awarding Recovery Act funds. See appendix 1 for our objectives, scope, and methodology.

Results in Brief

We found that in awarding Recovery Act funds, the CDFI Fund did not comply with certain statutory requirements of the Recovery Act, nor the Riegle Community Development and Regulatory

¹ Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

Improvement Act of 1994 (Riegle Act),² the law that authorized establishment of the CDFI Fund. We also found inconsistencies in how the CDFI Fund evaluated and scored fiscal year 2009 funding applications. Furthermore, the CDFI Fund did not ensure that reviewers' guidance was consistently followed or that complete assistance application files were always maintained. Finally, we found that some fiscal year 2009 assistance agreements were missing key schedules and another contained more stringent requirements than it should have.

To address these findings, we are making a number of recommendations to the Director of the CDFI Fund to ensure compliance with applicable laws and regulations and to ensure consistency in evaluating and scoring funding applications. Additionally, we recommend that the CDFI Fund Director put controls in place to ensure that reviewer guidance is consistently followed and that complete assistance applications files are properly maintained. We are also recommending that the CDFI Fund Director review all assistance agreements for key schedules and proper performance measures, and correct the agreements as appropriate.

Overall, CDFI Fund management agreed with our recommendations to improve its processes for awarding assistance. Furthermore, in order to provide management with the opportunity to take corrective actions as early as possible, we communicated our findings with CDFI Fund management throughout the audit. As a result, CDFI Fund management's response states that the corrective actions have already been taken in some cases, and provides detailed corrective action plans for the others. It should be noted that we have not verified the actions that CDFI Fund management has taken in response to this audit. Management's response is provided in appendix 2.

Background

The Riegle Act established the CDFI Fund to provide financial assistance in the form of grants, loans, and other investments on a

² Pub. L. No. 103-325, 108 Stat. 2160 (Sep. 23, 1994).

competitive basis to certified CDFIs. Certified CDFIs are nongovernmental, specialized financial institutions that work in low-income communities or serve individuals or businesses that lack access to mainstream financial institutions. CDFIs provide many financial services, including capital to small businesses and micro-enterprises, mortgage loans to first-time homebuyers, financing to support the development of affordable housing projects and community facilities, and retail banking services to the unbanked.

The Recovery Act was signed into law on February 17, 2009, to provide financial assistance or supplemental appropriations for existing programs to help address the effects of the economic crisis. Part of the relief provided by the Recovery Act consisted of grants to qualified applicants for community development financing. Specifically, the Recovery Act provided an additional \$100 million to the CDFI Fund for its fiscal year 2009 funding round to make awards through the CDFI Program³ and the Native American CDFI Assistance (NACA) Program. Of this amount, the Recovery Act designated up to \$8 million for financial assistance, technical assistance, training, and outreach programs to benefit the Native American, Native Hawaiian, and Native Alaskan initiatives and allowed for \$2 million to fund administrative costs incurred by the CDFI Fund. The remaining \$90 million was set aside to fund the CDFI Program.

Under the Recovery Act, CDFI Fund grants were to be awarded in the same manner as other CDFI Program grants, with two exceptions. First, the Recovery Act waived the Riegle Act's requirement that applicants obtain matching funds from nonfederal sources.⁴ Second, it removed the Riegle Act's \$5 million funding cap on total awards to any one applicant during any 3-year period for the fiscal year 2009 funding round.⁵ Because of the additional funding provided through the Recovery Act, the CDFI Fund conducted its fiscal year 2009 funding round in two stages under

³ A program administered through the CDFI Fund that uses federal resources to invest in CDFIs and build their capacity to serve low-income people and communities that lack access to affordable financial products and services.

⁴ 12 U.S.C. § 4707(e).

⁵ 12 U.S.C. § 4707(d).

two separate Notices of Funds Availability⁶ (NOFAs), each with different application criteria. The first stage was announced in a NOFA in August 2008, prior to the passage of the Recovery Act. The second stage was announced in a NOFA in April 2009, after the Recovery Act was enacted. At the time when the second stage of the fiscal year 2009 funding round was announced, assistance had not yet been awarded to any applicants under either stage of the fiscal year 2009 funding round. Regardless, the first stage NOFA requirements were not amended to include waivers for matching funds and the funding cap to comply with the Recovery Act. Moreover, applicants who had already submitted applications for funding assistance under the requirements of the first NOFA were not asked to modify or resubmit their applications. As a result, this may have significantly limited the amount of assistance requested by those applicants. Furthermore, in making first stage awards, CDFI Fund officials considered only pre-Recovery Act criteria. Again, this may have significantly limited the amount of assistance awarded to first stage applicants. This occurred even though, at the time of the April 2009 NOFA, no assistance had been awarded to any applicant under the first or second stage of the fiscal year 2009 funding round; and, once the Recovery Act passed, its waivers for matching funding and the \$5 million cap should have applied to all applicants under the entire fiscal year 2009 funding round. It should be noted that the CDFI Fund is required to process and evaluate funding applications in a fair and consistent manner.⁷

The CDFI Program Office is responsible for conducting application reviews and managing the award process for the CDFI Program and the NACA Program. The reviews are conducted in two phases. Phase I review is performed by contracted external reviewers, or readers, who score applications. These external readers are to provide thorough scoring and written justifications for the scores they assign and the award amounts they recommend.

⁶ An announcement in the Federal Register of the availability of federal money for a program, and the corresponding application deadlines, eligibility requirements and resources for assistance with applying for the program.

⁷ 12 U.S.C. 1805.700(a)

Each application is reviewed by three readers, who score questions and subquestions in a review workbook.⁸ Each applicant is evaluated on a 100 point scale based on the five criteria in the application. The criteria include a market analysis, business strategy, community development performance (i.e., a track record of providing financial services), management, and the applicant's financial health and viability. Readers score each criterion, or section, of the workbook and must provide sufficient justifications for the scores they assign.

A CDFI Fund team leader oversees the Phase I review primarily to ensure that

- the reviews progress on schedule;
- readers' questions are answered;
- readers' scores and comments conform to applicable guidance;
- readers' scores are consistent with the corresponding subquestions within the review workbook;
- strengths and weaknesses noted by readers are clear, substantive, address key components for that section of the business plan, and are ready for the public;
- the scores and comments of the three Phase I readers are not in factual conflict with one another; and
- the review is complete and applicants are eligible.

The Phase II review is a follow-up review conducted internally by CDFI Fund staff. During Phase II, CDFI Fund staff review the Phase I readers' justifications and scores to resolve any critical outstanding issues or changes and to determine appropriate award amounts. Based on the recommendations of the Phase II reviewers, the grant manager in the CDFI Program Office makes the final award determination.

The grant manager certifies the completion of the award package and confirms that CDFI Fund personnel completed the appropriate eligibility checks, scoring or funding amount adjustments, consistency review, and award justification. Additionally, the grant

⁸ The review workbook is in the Community Development Financial Institutions Fund 2009 CDFI Program Reviewer Guidance.

manager identifies and resolves any issues related to procedures, justifications, or budget. The grant management staff enter the information from the award application into the web-based Assistance Agreement System to create the assistance agreements, and notifies the Office of Public and Legislative Affairs of the pending award. From the Assistance Agreement System, legal staff generates the draft assistance agreement and review it to ensure that the appropriate goals and measures, program and statutory regulations, CDFI Fund policies, and other data elements from the award package are included. Following legal's review, the assistance agreements are provided to the grantee for signature.

Findings and Recommendations

Finding 1 **CDFI Fund's Policies and Procedures Were Not in Compliance With Certain Statutory Requirements**

We found that, in awarding Recovery Act funds, the CDFI Fund did not follow the Riegle Act's requirement that applicants submit comprehensive 5-year business plans⁹ or consistently apply the Recovery Act's waiver of the Riegle Act's matching fund requirements and funding cap for fiscal year 2009.

Riegle Act Noncompliance

Among other things, the Riegle Act requires that applicants applying for assistance from the CDFI Fund submit a "business plan of not less than 5 years in duration that demonstrates that the applicant will be properly managed and will have the capacity to operate as a community development financial institution that will not be dependent upon assistance from the Fund for continued viability."¹⁰ We found however that CDFI Fund policy requires that applicants submit a 6-year plan that projects 3 years forward and provides data from the previous 3 years.

CDFI Fund personnel maintain that current policy complies with the Riegle Act and stated that the 6-year plan provides more

⁹ 12 U.S.C. § 4704(b)(2)(A)

¹⁰ 12 U.S.C. § 4704(b)(2)(A).

information—6 years rather than 5—than the law requires. We do not believe that business plans projecting only 3 years forward, rather than 5, meet the intent of the Riegle Act for applicants to adequately demonstrate their ability to sustain operations without future assistance from the CDFI Fund.

Recovery Act Noncompliance

In addition to providing additional funding to the CDFI Fund, the Recovery Act waived certain provisions of the Riegle Act for the fiscal year 2009 funding round, including the requirement that applicants for assistance other than technical assistance obtain matching funds from nonfederal sources and capping funds at \$5 million. However, we found that the CDFI Fund did not revise its award process during the first stage of the fiscal year 2009 funding round to comply with the waivers.

The CDFI Fund conducted its fiscal year 2009 funding round in two stages. The first stage was announced in a CDFI Fund NOFA issued on August 15, 2008. Applicants applying under this NOFA were required to obtain matching funds and were limited by the \$5 million funding cap. Reviewing and scoring of applications received under this NOFA were completed by March 3, 2009.

The CDFI Fund released its Recovery Act implementation plan, waiving the matching funds requirement and the \$5 million cap, on March 18, 2009. Following this announcement, however, the award process for the first stage of the fiscal year 2009 funding round was not re-opened or otherwise modified to accommodate applicants denied under the August 2008 NOFA because of their inability to obtain matching funds or because their requests exceeded the \$5 million cap. As a result, these applicants may not have had an opportunity to request or receive the fullest amount of assistance for which they were eligible during the first stage of the fiscal year 2009 funding round.

It was not until the second stage of the fiscal year 2009 funding round, under a separate NOFA issued on April 28, 2009, that the CDFI Fund changed its assistance application requirements to waive the matching funds requirement and eliminate the funding cap. Consequently, the matching funds and funding cap waivers

were not applied consistently to all applicants during the fiscal year 2009 funding round. This occurred even though, at the time of the April 2009 NOFA, no assistance had been awarded to any applicant under the first or second stage of the fiscal year 2009 funding round; and, once the Recovery Act passed, its waivers for matching funding and the \$5 million cap should have applied to all applicants under the entire fiscal year 2009 funding round.

Recommendations

We recommend that CDFI Fund Director take the following action:

1. Revise the CDFI Fund application requirements to require that applicants provide comprehensive business plans that project out at least 5 years, in accordance with the requirements of the Riegle Act.

Management Response

CDFI Fund management stated that going forward, the CDFI Fund will require applicants to submit comprehensive business plans projecting 5 years into the future, as recommended, beginning with the fiscal year 2012 funding round of the CDFI Program.

OIG Comment

Management's planned action meets the intent of our recommendation.

2. Revise current policy and related guidance to ensure compliance with statutory requirements. These revisions should include steps to ensure that the guidance is amended in a timely manner to incorporate all legislative changes so that applicants are knowledgeable of all applicable requirements.

Management Response

CDFI Fund management stated that it has already taken action to comply with this recommendation by ensuring

that CDFI Program applicants for the fiscal year 2011 round were made aware of the possibility of a Congressional waiver of the matching funds and \$5 million cap requirements at the time of application.

OIG Comment

Management's response meets the intent of our recommendation. Going forward, the CDFI Fund will need to ensure that program policy and related guidance be continually updated to reflect legislative changes.

Finding 2 Applications for Fiscal Year 2009 Funding Were Not Evaluated in a Fair and Consistent Manner

The CDFI Fund's process for evaluating fiscal year 2009 applications did not ensure that applicants were evaluated in a fair and consistent manner in accordance with the Riegle Act. As discussed in finding 1, in addition to inconsistencies identified in the application for assistance criteria, we identified inconsistencies in how the applications were evaluated and scored. Applicants who applied for CDFI Fund awards during the first stage of the fiscal year 2009 funding round received scores based on requests for both financial assistance (FA) and technical assistance (TA) awards.¹¹ Applicants received an overall combined score, which impacted their overall ranking. However, during the second stage of the fiscal year 2009 funding round, the CDFI Fund changed its scoring method in that it did not accept TA requests at all. In other words, applicants who applied for funding during the second stage, received scores based only on their need for FA funds.

Applicants not funded during the first stage of the fiscal year 2009 funding round were automatically considered for funding during the second stage. However, they were not required to resubmit their applications requesting FA funding only, and the scores they received for TA in the first stage were not removed from their

¹¹ Financial assistance awards are intended to provide financial support to CDFIs to enable them to carry out the strategies outlined in their comprehensive business plans. Technical assistance awards may be used by CDFIs to address a variety of needs, including development of strategic planning documents, market analyses or product feasibility analyses, and operational policies and procedures.

overall combined scores. As a result, applicants requesting both FA and TA awards, who did not receive funding during the first stage, placed higher on the ranking scale during the second stage of the award round because they were evaluated based on combined scores rather than on financial assistance scores only.

We believe that applicants who requested FA funding only during the second stage of the fiscal year 2009 funding round may have been denied awards because they were at a disadvantage to applicants whose scores included first-stage TA scores.

To address this, CDFI Fund staff informed us that the CDFI Program application for fiscal year 2011 was revised so that applicants could apply for either FA or TA, but not both. At the time of our field work, the fiscal year 2010 funding round had already been awarded. We reviewed the fiscal year 2011 application form and verified that the CDFI Fund made the necessary revisions.

Recommendation

We recommend that CDFI Fund Director take the following action:

3. To ensure better consistency, revise procedures and reviewer guidance to include a step that would require readers and reviewers of CDFI Fund applications to review applicable NOFA criteria when scoring applications.

Management Response

CDFI Fund management stated that it revised the fiscal year 2011 CDFI Program application, requiring separate applications for financial assistance and technical assistance which will be the application for future rounds. In addition, the CDFI Program reviewers' guidance packet included the NOFA and, during reviewer training, CDFI Fund staff instructed reviewers to read the NOFA and refer to it when scoring applications.

OIG Comment

Management's response meets the intent of our recommendation.

Finding 3 Applications for Fiscal Year 2009 Funding Were Not Always Scored in Compliance With Reviewer and Team Leader Guidance Nor Were Complete Files Maintained

The CDFI Fund did not ensure that assistance applications were evaluated in accordance with reviewer and team leader guidance during the fiscal year 2009 funding round. We identified several instances in which Phase I readers and the CDFI Fund team leader did not always follow applicable guidance for ensuring fair and consistent evaluation of applicants for CDFI Program and NACA Program assistance, which resulted in disparate and, in some cases, unsupported scores. Furthermore, several application packages were missing key documents necessary to perform complete reviews.

The "2009 CDFI Program Reviewer Guidance" required that Phase I readers perform reviews of applications evaluating each applicant's market analysis, business strategy, community development performance (i.e. track record in providing financial services), management, and its financial health and viability. In short, Phase I readers were required to assign scores to each section and provide justifications for the scores they assigned based on applicants' responses and readers' professional experience .

We found instances where Phase I readers' written justifications did not support the scores they assigned. Additionally, as the review process within the CDFI Fund moved forward, we often found that neither the team leader nor the Phase II reviewers identified these deficiencies. During our review, we found the following issues with respect to reviews of CDFI Fund applications:

- One Phase I reader's justification for the expertise of management staff did not match the justification provided by the other two readers. In addition, several justifications

provided no detail or insufficient detail to justify the assigned scores. We also found that weaknesses identified by 2 out of 3 readers for one application were not identified by the third reader, who stated that the application had no weaknesses.

- Several readers did not answer all questions or subquestions required by the review workbook.
- Three applications for NACA awards received scores for Financial Health and Viability that were below the minimum allowable score for award approval, but they were approved anyway.

Team leaders are supposed to provide feedback to the readers to ensure that scores and justifications conform to the reviewer guidance. According to CDFI Fund personnel, when providing such feedback to readers, team leaders are not to ask leading questions of the readers that would cause readers to alter their initial scoring; they are to ask for justification to support the score that was assigned by the reader. However, we found two instances where the feedback provided must have influenced the scoring process because readers increased their scores as a result.

In addition to the weaknesses identified in the application review process, we found that the CDFI Fund did not always maintain complete application files. Specifically, we noted that certain key documents required for a complete application review were missing from several applicants' files, such as financial statements, 501(c)(4) certifications,¹² organizational charts, and certifications of material events. From our review of the application packages and the written comments provided by readers and reviewers, we believe that the missing documents must have been available to the readers and reviewers during the time of their evaluations. However, as a result of these missing documents, we were unable to verify whether all assistance applications were reviewed in a consistent manner or in accordance with applicable guidance.

¹² A letter from the Internal Revenue Service evidencing that the applicant is exempt from federal income taxes under section 501 (c)(4) of the U.S. Internal Revenue Code, as a social welfare organization.

Team leaders with whom we spoke told us the following reasons why they believe the breakdown in the application review process may have happened:

- Inconsistencies among readers' work may have been missed because team leaders often reviewed multiple applications concurrently.
- Insufficient or lack of training provided to readers and team leaders on the application review procedures.
- A lack of controls to ensure that complete assistance application files were maintained.

As stated above, the CDFI Fund is required to evaluate all assistance applications in a fair and consistent manner. However, because of weaknesses in its system of control, improper scoring may have resulted in the granting of awards to ineligible applicants or the denial of awards to deserving applicants.

Recommendations

We recommend that CDFI Fund Director take the following action:

4. Strengthen the training provided to Phase I readers, team leaders, and Phase II reviewers to ensure that personnel understand and comply with the applicable guidance to evaluate applications consistently and fairly.

Management Response

CDFI Fund management stated that it revised the CDFI Program reviewers' guidance training, strengthened the scoring guidance, and conducted multiple training sessions for reviewers. In addition, CDFI revised the team leaders' guidance document to emphasize consistency, fairness, and objectivity. The guidance document includes examples of language that team leaders may use to avoid the possibility of unintentionally influencing scores while soliciting reviewer clarification. Oversight of team leaders

has been strengthened and new team leaders have been mentored by experienced team leaders.

OIG Comment

Management's response meets the intent of our recommendation.

5. Institute a final review by the team leader to ensure that all inconsistencies between the review phases are adequately addressed and appropriately documented.

Management Response

CDFI Fund management stated it implemented stronger and clearer team leader training, specifically incorporating various strategies for reducing reviewer inconsistencies. Non-CDFI Program team leaders were partnered with CDFI Program staff team leaders to help eliminate confusion and address issues of inconsistencies. Further, the CDFI Fund revised the application scoring system for applications, requiring reviewers to be more systematic in their reviews.

OIG Comment

Management's response meets the intent of our recommendation.

6. Establish a filing system with requisite controls to ensure that complete assistance application files are properly maintained.

Management Response

CDFI Fund management stated that it will establish Standard Operating Procedures for a filing system with requisite controls to ensure complete assistance application files are properly maintained.

OIG Comment

Management's planned action meets the intent of our recommendation.

7. Evaluate the reasonableness of established timeframes for application reviews to ensure that adequate time is provided for a complete and thorough review of each application.

Management Response

CDFI Fund management stated that it will evaluate the reasonableness of established timeframes for CDFI Program application reviews to ensure adequate time is provided for a complete and thorough review of each application.

OIG Comment

Management's planned action meets the intent of our recommendation.

Finding 4 Assistance Agreements for Fiscal Year 2009 Funding Were Not Prepared Consistently

The CDFI Fund did not ensure that assistance agreements for fiscal year 2009 awardees were consistently prepared or reviewed. Aside from the differences caused by the inconsistent NOFA requirements for the fiscal year 2009 funding round, discussed in finding 1, we found instances where the assistance agreements omitted required information or included incorrect data that was not flagged during the CDFI Fund review process. Specifically, we identified 4 instances from our sample of 35 applications where the assistance agreements did not include the required schedule of resource deployment. The schedule of resource deployment is required to be included in each assistance agreement so that awardees deploy their awards in a timely manner throughout the period of award. Without such a schedule, awardees could conceivably hold onto their funds as late as when the award is due to expire. We also found one instance where the awardees'

performance goals and measures were incorrect, resulting in an assistance agreement that included more stringent requirements than it should have.

According to the CDFI Fund's procedures, once the Grant Management Office makes the final determination to award, the assistance agreement is entered into the Assistance Agreement System by the CDFI Program Office based on an awardee's application package. The Office of Public and Legislative Affairs is notified when the agreement is ready for legal review. It is the legal staff's responsibility to review the draft assistance agreements to ensure that the appropriate goals and measures, program and statutory regulations, CDFI Fund policies, and other data elements from the award package are included.

In the cases of the missing schedules of resource deployment, CDFI Fund personnel told us that the omissions were due to a technical glitch within the Assistance Agreement System. However, the missing schedules were also not identified by the CDFI Fund legal staff during their review of the draft assistance agreements. Since bringing this matter to the attention of the CDFI Fund management, we were informed that other assistance agreements with missing schedules were found and are being corrected by CDFI Fund personnel.

Furthermore, with regard to the assistance agreement that improperly included more stringent requirements than it should have, we were told that the grants management staff mistakenly input incorrect information into the Assistance Agreement System. Again, that was not identified by the CDFI Fund legal staff during their review of the draft assistance agreement.

Recommendations

We recommend that CDFI Fund Director take the following action:

8. Identify and correct the weaknesses in the Assistance Agreement System that allowed the deployment of resources schedules to be omitted from the assistance agreements.

Management Response

CDFI Fund management stated that its current Information Technology plan focuses on the development of a new grant life-cycle solution that will replace the Assistance Agreement System in 2013, subject to funding availability. Also, as a result of issues identified by the CDFI Fund's Office of Legal Counsel during the FY 2009 CDFI and NACA Program funding round, that office no longer uses the Assistance Agreement System to generate assistance agreements for either the CDFI or NACA programs.

OIG Comment

Management's planned action meets the intent of our recommendation.

9. Review all assistance agreements to ensure that the deployment of resources schedule and the proper performance measures are included, and correct any omissions or errors accordingly.

Management Response

CDFI Fund management stated that awardees were sent amendment letters with corrected schedules including deployment tables. CDFI Fund personnel are currently following up to ensure that all of the corrective amendments have been received and counter-executed by the awardees.

OIG Comment

Management's response meets the intent of our recommendation. However, we reiterate the need for review of all assistance agreements as our audit disclosed instances of missing deployment schedules and inclusion of improper performance measures subsequent to the Office of Legal Counsel's identification of the errors in the Assistance Agreement System.

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10. Reinforce the need for CDFI Fund’s grants management staff follow all applicable procedures when preparing and reviewing awardee assistance agreements in the Assistance Agreement System. Reinforce the same need to follow all applicable procedures with the CDFI Fund’s legal staff when reviewing assistance agreements.

Management Response

CDFI Fund management stated that it realigned the former grants management office and its responsibilities have been incorporated into other business units. The respective program managers and their staff are responsible for ensuring the accuracy of the performance goals and measures in each awardee’s assistance agreement.

OIG Comment

Management’s response meets the intent of our recommendation. We reiterate that the CDFI Fund should ensure that applicable procedures are followed by legal staff as well as the grants management staff.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during this audit. If you wish to discuss this report, you may contact me at (202) 927-5784 or Cynthia Milanez, Audit Manager, at (202) 927-4879.

/s/

Donna Joseph
Audit Director

In March 2009, we initiated an audit of the additional funding provided to the CDFI Fund through the Recovery Act to determine whether an appropriate level of accountability, control, and oversight had been established for the expenditure of those funds. This report specifically focused on the CDFI Fund's process for awarding the Recovery Act funds.

In performing our work, we interviewed key CDFI Fund personnel and Treasury officials; reviewed laws and regulations governing the CDFI Fund, internal policies and procedures, and reviewer guidance for CDFI Fund staff and external contractors; and tested applications and documentation of awardees. We applied statistical sampling to select a random sample of 35 applications for testing from the universe of 69 Recovery Act awardees. We determined our sample size based on a 90 percent confidence level, an expected error rate of 50 percent, and 10 percent sample precision. As a result, we tested \$49 million (50 percent) of the \$98 million of Recovery Act funds that had been awarded.

We conducted our fieldwork for this report at the CDFI Fund in Washington, D.C., from June 2009 through February 2011.

Our audit was conducted in accordance with generally accepted government auditing standards for performance audits. 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.



DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
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MEMORANDUM

DATE: May 17, 2011
TO: Donna Joseph, Director, Grants and Financial Assistance Audits
Office of Inspector General
Department of the Treasury
FROM: Donna Gambrell, Director
SUBJECT: Draft Audit Report: The CDFI Fund Needs to Improve Its Process for
Awarding Assistance to Applicants

In response to a memo from the Office of Inspector General (OIG) dated April 28, 2011 regarding findings that the Community Development Financial Institutions (CDFI) Fund needs to improve its process for awarding assistance to applicants, please find our comments below. Per your request, these comments are in accordance with Treasury Directive 40-01, *Responsibilities of and to the Inspector General*.

Finding No. 1: CDFI Fund's Policies and Procedures Were Not in Compliance With Certain Statutory Requirements

The Office of Inspector General (OIG) found that in awarding Recovery Act funds, the CDFI Fund did not follow the Riegle Act requirement that applicants submit comprehensive 5-year business plans or consistently apply the Recovery Act's waiver of the Riegle Act's matching fund requirements and funding cap for fiscal year 2009.

Recommendation No. 1: Revise the CDFI Fund application requirements to require that applicants provide comprehensive business plans that project out at least 5 years, in accordance with the requirements of the Riegle Act.

Management Response: The CDFI Fund made the decision around 2000 to request Comprehensive Business Plans (CBPs) with the six-year duration, as described in the finding, based on concerns expressed by CDFI Program applicants that they lacked reliable information to project five years into the future with much accuracy. The CDFI Fund will modify this practice, going forward.

Plan Corrective Action (PCA): The CDFI Fund will require applicants to submit CBPs projecting five years into the future, as recommended, beginning in with the FY 2012 funding round of the CDFI Program.

PCA Due Date: September 30, 2012

Point of Contact for PCA: Ruth Jaure, CDFI Program Manager

Recommendation No. 2: Revise current policy and related guidance to ensure compliance with statutory requirements. These revisions should include steps to ensure that the guidance is amended in a timely manner to incorporate all legislative changes so that applicants are knowledgeable of applicable requirements.

Management Response: In order to expedite the disbursement of Recovery Act funding within underserved and economically distressed communities, and because we were called upon to play a significant role in the nation's economic recovery, the CDFI Fund allocated Recovery Act dollars for awards selected from applications submitted under the FY 2009 Notice of Funding Availability (NOFA), released in August 2008. In making this decision, the CDFI Fund determined that the country's urgent and acute need for lending capital outweighed the types of potential risks cited in the OIG report. In support of this decision, the CDFI Fund's Recovery Act plan was approved by the Department of the Treasury's Office of the Chief Financial Officer. As directed by the Department of the Treasury, the CDFI Fund's Recovery Act plan was made available to the public on the CDFI Fund's website.

Please note that applicants considered for Recovery Act and non-Recovery Act funding were *not* evaluated on their ability to obtain matching funds or the \$5 million cap, as stated in this finding. Those requirements were waived by Congress.

For FY 2011, the CDFI Fund ensured that CDFI Program applicants were fully aware of the possibility of a Congressional waiver of the matching funds and \$5 million cap requirements at the time of application.

PCA: Not applicable - The CDFI Fund has already taken actions to comply with this recommendation.

PCA Due Date: Not applicable.

Point of Contact for PCA: Not applicable.

Finding No. 2: Applications for Fiscal Year 2009 Funding Were Not Evaluated in a Fair and Consistent Manner

Recommendation No. 3: To ensure better consistency, revise procedures and reviewer guidance to include a step that would require readers and reviewers of CDFI Fund applications to review applicable NOFA criteria when scoring applications.

Management Response: As stated in this finding, the CDFI Fund revised the FY 2011 CDFI Program application, requiring separate applications for financial assistance and technical assistance. This change will remain in the application for future funding rounds. In addition, the CDFI Program reviewers' guidance packet included the NOFA and, during reviewer training, CDFI Fund staff instructed reviewers to read the NOFA and refer to it when scoring applications.

PCA: Not applicable - The CDFI Fund has already taken actions to comply with this recommendation.

PCA Due Date: Not applicable.

Point of Contact for PCA: Not applicable.

Finding No. 3 – Applications for Fiscal Year 2009 Funding Were Not Always Scored in Compliance With Reviewer and Team Leader Guidance Nor Were Complete Files Maintained

Recommendation No. 4: Strengthen the training provided to CDFI Program Phase 1 readers, team leaders, and Phase 11 reviewers to ensure that personnel understand and comply with the applicable guidance to evaluate applications consistently and fairly.

Management Response: In FY 2011, the CDFI Fund revised the CDFI Program reviewers' guidance training, strengthened the scoring guidance and conducted multiple training sessions for reviewers. We also revised the team leaders' guidance document, emphasizing consistency, fairness and objectivity. The guidance document includes examples of language that team leaders may use to avoid the possibility of unintentionally influencing scores while soliciting reviewer clarification. Oversight of team leaders has been strengthened and new team leaders have been mentored by experienced team leaders.

PCA: See above Management Response to Recommendation No. 4.

PCA Due Date: Not applicable - The CDFI Fund has already taken actions to comply with this recommendation.

Point of Contact for PCA: Not applicable.

Recommendation No. 5: Institute a final review by the team leader to ensure that all inconsistencies between the review phases are adequately addressed and appropriately documented.

Management Response: In the FY 2011 funding rounds of the CDFI Program, the CDFI Fund implemented stronger, clearer team leader training, specifically incorporating various strategies for reducing reviewer inconsistencies. Non-CDFI Program team leaders were partnered with CDFI Program staff team leaders to help eliminate confusion and address issues of inconsistencies. Further, the CDFI Fund revised the application scoring system for applications, requiring reviewers to be more systematic in their reviews.

PCA: See above Management Response to Recommendation No. 5.

PCA Due Date: Not applicable - The CDFI Fund has already taken actions to comply with this recommendation.

Point of Contact for PCA: Not applicable.

Recommendation No. 6: Establish a filing system with requisite controls to ensure that complete assistance application files are properly maintained.

Management Response: The CDFI Fund agrees with this recommendation.

PCA: The CDFI Fund will establish Standard Operating Procedures for a filing system with requisite controls to ensure complete assistance application files are properly maintained.

PCA Due Date: September 30, 2012

Points of Contact for PCA: Ruth Jaure, CDFI Program Manager; Paul Markovitz, Chief Information Officer

Recommendation No. 7: Evaluate the reasonableness of established timeframes for application reviews to ensure adequate time is provided for a complete and thorough review of each application.

Management Response: The CDFI Fund agrees with this recommendation.

PCA: The CDFI Fund will evaluate the reasonableness of established timeframes for CDFI Program application reviews to ensure adequate time is provided for a complete and thorough review of each application.

PCA Due Date: September 30, 2012

Point of Contact for PCA: Ruth Jaure, CDFI Program Manager

Finding No. 4: Assistance Agreements for Fiscal Year 2009 Funding Were Not Prepared Consistently

Recommendation No. 8: Identify and correct the weaknesses in the Assistance Agreement System that allowed the deployment of resources schedules to be omitted from the assistance agreements.

Management Response: The CDFI Fund is aware of the issues related to the Assistance Agreement System (AAS); however, budgetary constraints have limited the ability to make improvements to the system. The CDFI Fund's current Information Technology plan focuses on the development of a new grant life-cycle solution that will replace AAS in FY 2013, subject to funding availability. Also, as a result of issues identified by the CDFI Fund's Office of Legal Counsel during the FY 2009 CDFI and NACA Program funding round, that office no longer uses the AAS to generate assistance agreements for either the CDFI or NACA Programs (beginning with the FY 2010 agreements).

PCA: The CDFI Fund's current Information Technology plan focuses on the development of a new grant life-cycle solution that will replace AAS in 2013, subject to

funding availability. Also, as a result of issues identified by the CDFI Fund's Office of Legal Counsel during the FY 2009 CDFI and NACA Program funding round, that office no longer uses the AAS to generate assistance agreements for either the CDFI or NACA Programs (beginning with the FY 2010 agreements).

PCA Due Date: September 30, 2012, subject to funding availability

Point of Contact for PCA: Paul Markovitz, Chief Information Officer

Recommendation No. 9: Review all assistance agreements to ensure that the deployment of resources schedule and the proper performance measures are included, and correct any omissions or errors accordingly.

Management Response: The CDFI Fund's Office of Legal Counsel completed the Recovery Act NACA Program closings in late-August 2009. In December 2009, the office identified an AAS error in generating the deployment charts in those agreements. In January 2010, all ten awardees were sent amendment letters with corrected schedules including deployment tables. CDFI Fund personnel are currently following up to ensure that all of the corrective amendments have been received and counter-executed by the awardees. As stated previously, as a result of issues identified by the Office of Legal Counsel during the FY 2009 funding round, that office no longer uses the AAS to generate assistance agreements for either the CDFI or NACA Programs. This change was made beginning with the FY 2010 agreements. The customized awardee schedules are prepared by CDFI and NACA Program staff that are responsible for quality control and data accuracy, and then transmitted to the legal office.

PCA: See above Management Response to Recommendation No. 9.

PCA Due Date: Not applicable - The CDFI Fund has already taken actions to comply with this recommendation.

Point of Contact for PCA: Not applicable.

Recommendation No. 10: Reinforce the need for CDFI Fund's grants management staff follow all applicable procedures when preparing and reviewing awardee assistance agreements in the Assistance Agreement System. Reinforce the same need to follow all applicable procedures with the CDFI Fund's legal staff when reviewing assistance agreements.

Management Response: In an effort to increase efficiencies, the CDFI Fund's former grants management office was realigned and its responsibilities have been incorporated into other business units. The respective program managers and their staff are responsible for ensuring the accuracy of the performance goals and measures in each awardee's assistance agreement. The program staff, as stated above, now generates the customized schedules and transmits them to the legal staff for inclusion in the assistance agreements.

PCA: See above Management Response to Recommendation No. 10.

Appendix 2
Management Response

PCA Due Date: Not Applicable - The CDFI Fund has already taken actions to comply with this recommendation.

Point of Contact for PCA: Not applicable.

Appendix 3
Major Contributors To This Report

Donna Joseph, Director
Cynthia Milanez, Audit Manager
Bobbi Paulson, Audit Manager
Chereeka Straker, Auditor-in-Charge
Syed Owais Rizvi, Auditor-in-Charge
Nicholas Slonka, Auditor
Ingrid Balocco, Auditor
Alexander Milne, Auditor
Paul Harris, Auditor
Rufus Etienne, Referencer

Department of the Treasury

Assistant Secretary for Management of the Treasury, Chief
Financial Officer, and Chief Performance Officer
Deputy Chief Financial Officer
Director, Strategic Planning and Performance Management

Community Development Financial Institutions Fund

Director
Senior Advisor, Office of the Director
Senior Program Analyst, Office of the Director
Program Manager, CDFI Program

Office of Management and Budget

OIG Budget Examiner

Recovery and Accountability and Transparency Board