



Audit Report



OIG-09-008

Management Letter for Fiscal Year 2008 Audit of the
Community Development Financial Institutions Fund's Statement
of Financial Position

November 18, 2008

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 18, 2008

**MEMORANDUM FOR DONNA J. GAMBRELL, DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL
INSTITUTIONS FUND**

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2008 Audit of the
Community Development Financial Institutions Fund's
Statement of Financial Position

I am pleased to transmit the attached management letter in connection with the audit of the Community Development Financial Institutions Fund's (CDFI) Fiscal Year 2008 statement of financial position. Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of CDFI's statement of financial position as of September 30, 2008. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG issued and is responsible for the accompanying management letter that discusses a matter involving internal control over financial reporting that was identified during the audit, but was not required to be included in the audit report.

In connection with the contract, we reviewed KPMG's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits, at (202) 927-5591.

Attachment



KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 12, 2008

Office of the Inspector General
740 15th Street NW
Washington, DC 20220

Community Development Financial Institutions Fund
601 13th Street NW
Washington, DC 20005

Ladies and Gentlemen:

We have audited the statement of financial position of the U S Department of the Treasury Community Development Financial Institutions Fund, (the Fund) as of September 30, 2008, and have issued our report thereon dated November 12, 2008. In planning and performing our audit of the statement of financial position of the Fund, in accordance with auditing standards generally accepted in the United States of America, we considered the 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 statement of financial position but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

During our audit, we noted a matter involving internal control that is presented for your consideration. This comment and related recommendation, which have been discussed with the appropriate members of management, are intended to improve internal control and are summarized as follows.

Lack of Written Accounting Policies and Procedures

CDFI has not developed effective written accounting policies and procedures. Therefore, the control environment may be vulnerable to weaknesses in internal controls and certain bias may be applied to accounting processes. For example, we observed (1) different versions of Compliance Monitoring and Evaluation processes (2) similar transactions that were not treated consistently (i.e. awards monitoring, investment valuations, Time to Disbursement), and (3) certain management prepared schedules were not complete and accurate and did not report the underlying data in a transparent matter (i.e Investment Schedule, A-133 Reporting Requirement Schedule, and Status and Delinquency of Loans).

The Government Accountability Office (GAO) Internal Control Standards in the Federal Government, Internal Control Management and Evaluation Tool recommends that appropriate policies, procedures, techniques, and control mechanisms be developed and in place to ensure adherence to established directives.



Recommendation

We recommend the Fund establish a standard accounting policies and procedures manual. This manual will serve as an aid in training new employees, monitoring the performance of existing employees, and improving internal communication. At a minimum, the manual should include:

- CDFI's organizational chart
- Position descriptions, outlining duties and responsibilities (approved by the Departmental Offices)
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of those transactions
- The chart of accounts (i.e. a more detailed cycle matrix with explanations)
- Any other documents or forms for which uniformity of use is desired
- The system of internal controls (which can aid in the review and evaluation for OMB A-123)

This manual could help standardize the processes that are performed at CDFI and complement the procedures performed at the Bureau of Public Debt. Developing a written accounting policies and procedures manual will aid management in making key management decisions and accessing the effectiveness of controls, as well as assisting employees understanding of their role and responsibilities in the Fund. These written accounting policies and procedures should be designed to help safeguard the Fund's assets and to promote accuracy, efficiency, and consistency in accounting and business operations throughout the Fund. Written accounting policies and procedures can ensure that the Fund is structured to comply with prescribed accounting standards applicable to the Fund to maintain an adequate control environment.

Management's Response

The CDFI Fund agrees that the Office of the Chief Financial Officer (OCFO) has not developed written accounting policies and procedures, nor written policies and procedures related to the Debt Collection Improvement Act, which places the CDFI Fund at risk for internal control weaknesses. Accordingly, the CDFI Fund will adopt the auditor's recommendations and will establish the recommended policies and procedures manual to ensure that: (i) the CDFI Fund complies with the internal control standards set by the Government Accountability Office, Treasury Directive 32-01 (Accounting Principles and Standards), Treasury Directive 40-04 (Treasury Internal Management Control Program), and all other applicable statutes, regulations, orders, directives, and standards; (ii) internal controls are in place, the potential for material misstatements in financial reporting is reduced significantly, and processes are standardized and complement the procedures performed at the Bureau of Public Debt; (iii) all transactions are properly recorded and supported with adequate documentation; (iv) similar transactions are treated consistently; and (v) management-prepared schedules (including the Status and Delinquency of Loans schedule) are complete, accurate and report the underlying data in a transparent manner. The manual will serve as an aid to train new employees, monitor the performance of existing employees, and improve internal communications. The CDFI Fund's OCFO will prepare such policies and procedures manual by the end of the second quarter of Fiscal Year 2009.

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In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies and communicated them in writing to management and those charged with governance on November 12, 2008.

Our audit procedures are designed primarily to enable us to form an opinion on the statement of financial position, 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 Fund's organization gained during our work to make comments and suggestions that we hope will be useful to you.

This communication is intended solely for the information and use of the management of the CDFI Fund, the Department's Office of Inspector General, the Office of Management and Budget, GAO, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would be pleased to discuss this comment and recommendation with you at any time.

Very truly yours,

KPMG LLP