



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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OFFICE OF
INSPECTOR GENERAL

OIG-CA-21-029

**MEMORANDUM FOR JODIE HARRIS, DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND**

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Termination Memorandum – Audit of the Community
Development Financial Institutions Fund’s Administration of the
Healthy Food Financing Initiative (Job Code A-GF-15-017)

In December 2014, we initiated an audit of the Community Development Financial Institutions (CDFI) Fund’s Administration of the Healthy Food Financing Initiative (HFFI) under the CDFI Program.¹ Our audit objective was to evaluate the CDFI Fund’s program activities for carrying out its responsibility to administer HFFI financial assistance (FA) awards. Specifically, we planned to determine whether the CDFI Fund awarded HFFI-FA funds to eligible recipients, and assess the CDFI Fund’s process for monitoring awardee compliance and performance to ensure achievement of program objectives. The scope of our work was comprised of all 110 HFFI-FA applications from which 46 awards were made to 26 recipients during the fiscal year (FY) 2011 through FY 2014 funding rounds totaling \$92,488,432, and all 60 CDFI Fund compliance determinations.

We reviewed documentation to include: (1) Notice of Funds Availability for FY 2011 through FY 2014 funding rounds; (2) HFFI-FA application packages; (3) award documentation, including *Community Development Financial Institutions Fund Assistance Agreement(s) (Assistance Agreement(s))*; (4) CDFI Fund’s internal records, such as applicant eligibility review spreadsheets, award justifications, and compliance determinations; (5) CDFI Fund’s Standard Operating Procedures (SOPs); and (6) awardees’ annual reports for FY 2011 through FY 2014. While some work was performed, we placed the HFFI-FA audit on hold pending the results of our audit of ASI Federal Credit Union’s (ASI) CDFI Program awards since they fell within the HFFI-FA audit scope. At the same time, we were also engaged in an audit of the CDFI Fund’s

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.

administration of Technical Assistance (TA) awards, which also had overlapping audit objectives and scope. Given the lapse of time while concluding these other audits, and the fact that only limited work was performed on this HFFI-FA audit, we decided not to perform additional procedures to conclude on our audit objectives. Additional information on the other audits and reasons for terminating the HFFI-FA audit are discussed below.

Overlapping Audits

Concurrent with our HFFI-FA audit, we were also engaged in two other audits to include awards made to ASI under the CDFI Program and the CDFI Fund's administration of TA awards. Initiated in October 2014, our audit of ASI's awards included, among other things, \$5 million of HFFI-FA awards in FY 2011 and FY 2012, which fell within the scope of the HFFI-FA audit. As described below, the ASI audit addressed objectives related to the CDFI Fund's awarding of HFFI-FA to eligible recipients and monitoring awardees' compliance with their *Assistance Agreement(s)*. Furthermore, there were significant issues surrounding ASI's eligibility as a CDFI. Initiated in December 2014, our audit of the CDFI Fund's administration of TA awards included an audit objective related to the CDFI Fund's monitoring of awardees' compliance with their *Assistance Agreement(s)* from FY 2006 through FY 2012. The CDFI certification was a critical factor in determining whether HFFI-FA awards were made to eligible recipients.

In both audits, we found that the CDFI Fund's Certification, Compliance, Monitoring, and Evaluation (CCME) personnel are responsible for reviewing awardee eligibility requirements and monitoring of awardee compliance with *Assistance Agreement(s)*, which is similar among all awards made under the CDFI Program to include HFFI-FA. Given the overlap in audit objectives and scope, we have decided not to bring our audit of the CDFI Fund's administration of HFFI-FA awards to conclusion. The following audit reports provide details of audit objectives and scope, as well as, highlight concerns regarding recipient eligibility and the CDFI Fund's monitoring activities that overlap with the HFFI-FA audit.

Audit of ASI Federal Credit Union's CDFI Program Awards (OIG-19-038; July 11, 2019)

In our audit of ASI's CDFI Program awards, our objective was to determine whether ASI used funds appropriately and in accordance with its *Assistance Agreement(s)*. As part of our audit, we also assessed whether ASI submitted valid information in its applications for TA and FA, to include HFFI-FA. The scope of our audit included ASI's December 2005 *CDFI Certification Application* (Certification Application), Assistance Applications for FY 2006 through FY 2009, FY 2011, and FY 2012, and *Assistance Agreement(s)* for calendar years 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).

Although ASI generally complied with the terms of its 2006, 2007, and 2008 *Assistance Agreement(s)* for its \$296,626 of TA awards, 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. Overall, we found that (1) the information in ASI's Certification Application was unsupported and steps taken to categorize member's income classifications were unreasonable;² (2) ASI included unapproved geographic areas and Other Target Populations³ as part of its target market in its FYs 2006 through 2009, 2011, and 2012 *Assistance Application(s)* that were unallowable; and (3) ASI failed to deploy all HFFI-FA awards, which violated its FY 2011 and FY 2012 *Assistance Agreement(s)*.

We recommended that the Director of the CDFI Fund determine whether ASI was in default of its 2006 through 2009, 2011, and 2012 *Assistance Agreement(s)* as a result of submitting invalid information in its Certification Application and *Assistance Agreement(s)* 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 recommended that management 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 the receipt of its \$1,347,000 FA award.

CDFI Fund management agreed with our recommendations and determined, as a result of ASI submitting invalid information in its 2006 Certification Application, the FY 2006 through 2009, 2011 and 2012 awards made to ASI constitute improper payments. As such, ASI was required to repay the CDFI Fund for the aforementioned awards, which total \$12,298,806. As of December 2020, the CDFI Fund closed all recommendations in the Joint Audit Management Enterprise System (JAMES).

As a recipient within scope of our HFFI-FA audit, ASI's CDFI certification issues allowed us to conclude that the CDFI Fund's HFFI-FA awards to ASI, for the FY 2011 through FY 2014 period within scope, were made to an ineligible recipient.

² ASI was required to direct at least 60 percent of its financial activities to at least one eligible Targeted Population. Targeted Population is defined as either (1) Low Income Targeted Population – 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.

³ Other Targeted Populations are those populations for a specified geographic unit 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.

Improvements Are Needed in the CDFI Fund's Administration of Technical Assistance Awards (OIG-20-037; June 12, 2020)

The objective of our TA audit was to determine whether awardees met the CDFI Fund's certification requirement as outlined in their TA Assistance Agreement(s). Among other things, the *Assistance Agreement(s)* required that non-certified TA awardees obtain CDFI certification by the end of the two-year performance period or other date assigned by the CDFI Fund. As part of our audit, we also assessed the CDFI Fund's monitoring activities for ensuring TA awardees' compliance with their *Assistance Agreement(s)*. The scope of our audit comprised all 315 TA awards totaling \$26,862,063 made to 269 entities from FY 2006 through FY 2012. Within this scope, 105 TA awardees comprising \$9,338,317 were not CDFI-certified at the time of their awards.

We reported that 41 of the 105 non-certified TA awardees (39 percent) did not achieve CDFI certification in accordance with their *Assistance Agreement(s)*. Furthermore, the CDFI Fund's monitoring activities did not ensure awardee compliance with their *Assistance Agreement(s)*. Specifically, the CCME staff did not (1) follow up on delinquent annual reports, (2) review awardees' annual reports timely and close out TA awards after the final performance period ends, and (3) monitor awardees' progress towards achieving CDFI certification. Furthermore, the CDFI Fund's CDFI Program and Native Initiatives SOPs in place during FY 2006 through FY 2012 did not include procedures specific to addressing these control activities.

In all, we made nine recommendations to the Director of the CDFI Fund to include: (1) consider requiring a reasonable CDFI Certification Application deadline for awardees in the *Assistance Agreement(s)* that will allow CCME staff sufficient review time to make certification decisions within the 90 calendar day timeline outlined in the *CDFI Certification Procedures*; (2) reassess CCME staff resources necessary to review *CDFI Certification Application(s)* and make certification decisions within the 90 calendar day timeline outlined in the *CDFI Certification Procedures*; (3) reassess the significance given to TA awardees' non-compliance with the CDFI certification requirement of the *Assistance Agreement(s)* when making a determination of default or no-default since one of several goals is for a non-certified entity to build capacity and become a certified CDFI; (4) ensure that CCME staff fully document the reasons for determinations of default or no-default when TA awardees are non-compliant with their *Assistance Agreement(s)*; (5) establish in SOPs a reasonable timeline for follow up on TA awardees' delinquent annual reports; (6) reassess information technology capabilities to determine if system users can be automatically alerted of delinquent reports; (7) assess CCME staffing levels to ensure sufficient compliance monitoring is performed for making awardee compliance determinations and closing out awards within the timeline established in the updated SOP; (8) ensure the closeout of all 315 TA awards within the FY 2006 through FY 2012 scope of the report; and (9) establish

and implement procedures that require monitoring of TA awardees' progress toward meeting CDFI certification requirements prior to submitting a *CDFI Certification Application*.

CDFI Fund management agreed with our recommendations. As of December 2020, CDFI Fund management reported in JAMES that all recommendations were implemented and closed. Corrective actions to address deficiencies in the CDFI Fund's monitoring activities include (1) assessing the need for staffing on an on-going basis, subject to budget constraints; (2) using automated Awards Management Information System (AMIS) features to ensure compliance determinations are made within the SOP's timeframes, among other things; (3) operationalizing compliance SOPs within AMIS to enable CCME to follow up on delinquent reports within a reasonable timeframe; and (4) implementing system requirements in AMIS that send automated report due date reminders and overdue report notices to awardees.

Audit results showed that the CDFI Fund's monitoring activities were deficient to ensure awardees' compliance with *Assistance Agreement(s)* for FY 2011 and FY 2012 within the HFFI-FA audit.

Conclusion

We believe that our audits of ASI's awards and the CDFI Fund's administration of TA awards provided the CDFI Fund management with recommendations that are relevant to strengthening its administration of HFFI-FA awards, if implemented. We plan to assess the actions taken by management to implement audit recommendations through a corrective action verification or as part of new audits of the CDFI Program to include HFFI-FA. Furthermore, all CDFI Fund programs will be evaluated as part of our annual planning process. Please refer to our FY 2021 Annual Plan on our website ([Planning Documents](#)). Also, note that *Audit of the Community Development Financial Institutions Fund's Administration of the Healthy Food Financing Initiative* (Job Code A-GF-15-017) will be removed from our *Monthly Status Report*.

We appreciate the courtesies and assistance provided by your staff. Should you have any questions concerning this audit, please contact me at (202) 486-1420 or Cecilia Howland, Audit Director, at (202) 577-6609.