EXHIBIT 18

CDFI PROGRAM

FINANCIAL & MANAGEMENT
INTERNAL CONTROL ASSISTANCE PROJECT

ERNST & YOUNG
OBSERVATIONS & RECOMMENDATIONS

MARCH 14, 1997

DRAFT

ERNST & YOUNG LLP

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
A. FROM SAMPLE FILE REVIEW	
We noted a lack of quantitative review documentation in the Master Files.	A scoring/priority mechanism should be devised for CDFI Program quality review. Applications should have some ranking or funding importance when there are limited resources. While some qualitative features may be difficult to measure using such a device, such a mechanism adds value by demonstrating objectivity and standardization of the application review process. A scoring mechanism used in both the initial review and the panel review will assist in streamlining the review process. The National Cancer Institute uses "Priority Scores" in its review process (see attachment 1). The priority scoring is done on a 5-point scale and uses descriptors ranging from Outstanding (1.0) to Acceptable (5.0). This scoring is not used as an overall ranking of the application but as a ranking of the application for recommended funding. The Department of Education's Discretionary Grants Reengineering Team also recommends using not scores, but "quality bands" to assist in streamlining the grant award process (see attachment 2). The rankings are broad and include such divisions as "highly recommended," "recommended," "recommended with substantial changes," and "not recommended." The Centers for Disease Control has a form that is given to its Primary Reviewers (see attachment 3) that combines a narrative review with a numeric scoring.
The Master File lacked a table of contents identifying the complete contents of the file.	A standard Master File table of contents should be developed for better award documentation control. The table of contents should be adjusted as appropriate for changes in Fund procedures. EY has included a sample table of contents (see attachment 4).

EY 0596

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
A. FROM SAMPLE FILE REVIEW (cont'd)	
The files and information were loosely bound. This condition will result in the loss or misfiling of important grant documentation.	The files should be bound more securely within binders in the order of the table of contents.
The files lacked documentation of certain procedures done by Treasury Procurement (e.g., background checks, see attachment 5).	All award documentation should be consolidated into the Master files.
Files were missing documentation that was generated by CDFI (conflict of interest statements, decision memo and program memos, see attachment 6)	Files should be updated with these documents added.
Existing files contain typographical errors on the labels. (i.e. Sandra Workers rather than School Workers, see attachment 7).	Labels should be double checked against the applications and, in the case of mistakes during the 1996 award process, new labels generated.

EY 0597

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
A. FROM SAMPLE FILE REVIEW (cont'd)	
Many documents were misfiled either within their own master file (placed in the wrong folder) or placed in other master files all together. EY found a the award letters for many of the awardees, clipped together and all filed under one awardee name.	Filers should check document against the file checklist or table of contents when filing.
Reviewer generated information was occasionally sent directly to the reviewer without a copy being placed in the master file.	Reviewer generated information should be sent to the CDFI office and then forwarded to the reviewer or a copy sent to both the reviewer and the CDFI office master file. The Fund should establish a procedure that will ensure that the original information is placed in the master file.
The signature space on the application grants only one person at the applicant's organization the authorization to sign official documents (see attachment 8).	An authorization signature form should be created to give the applicant the option of allowing more than one person at the organization to sign official documents (see attachment 9). This would help expedite the review/award process in the event that the initial signer was unavailable.
Some of the applicants submitted copies of the application form which held only a copy of the authorizing signature.	All signatures on the application should be original.

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
A. FROM SAMPLE FILE REVIEW (cont'd)	
Some of the evaluator review memos were not completed (Louisville Development Bancorp, Douglass Bancorp, Shorebank Corp, Southern Development Bancorp).	All of the evaluator review memos should be completed before the commencement of the panel review.
The log book holding the application tracking form contained the date and time of the application's arrival as well as detailed explanations on why an application was received late.	Although we recommend that no applications be accepted late in the future, for this round (when a general deadline waiver was instigated) the application tracking forms should be included in the master file. In addition, An overview memo should address why the general waiver was instituted.
The evaluator review memos were formatted differently from reviewer to reviewer (see attachment 10)	The evaluator review memos should follow a standard form to ensure that all of the relevant applicant information (name, address, award request, etc.) is included for the panel reviewers to find easily.

EY 0599

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
A. FROM SAMPLE FILE REVIEW (cont'd)	
Some of the awardee names differ from the master file label to those listed in the 1996 CDFI Fund Annual Report (i.e. Shorebank is listed as one in the master files, but the annual report lists the awardees as ShoreBridge Capital and Detroit Development Bancorp. The annual report lists Appalbanc as an awardee, but the master file label reads Federation of Appalachian Housing Enterprises, see attachment 11)	Procedures need to state whether the name of the applicant shall be the affiliate's name or the parent's name.
There are no written notes (that EY has seen) documenting the interviews with the applicants by the review panel.	The interview process should be documented. The Fund should consider including the interview agenda, its questions and the applicant's responses in the applicant's master file.
We noted no record of quality reviewer activities during the review process in the individual Master Files (i.e. date, person called, subject, request, reviewers notes.).	Any reviewer-generated requests or other contact should be documented in a reviewer activity log. The reviewer's notes taken during the review process should be included in the master file, or included in the activity log like in the case of the Department of Defense Export Loan Guarantee Program (see attahment 12) or the BEA program (see attachment 13).

EY 0600

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
B. ISSUES FROM MEETINGS/INTERVIEWS	
We noted the use of a panel review during the latter stages of the quality review process.	We were pleased that the CDFI Program implemented this control measure, and would encourage continuation of this practice into future award rounds.
There was no written trail of the panel review process, nor of the outcome. Panel review notes on decision to fund were not available. EY was told by the program director that they had to be "prettied up" or written to emphasize the strengths of the awardees and the weaknesses of those applicants who did not receive an award	Minutes of the panel review should be recorded, together with the panel's consensus on the awardees. As a result of the panel review, a summary memo should be prepared for the CDFI Director setting forth the names of awardees and recommendations as to award amounts and types. This document should be included in all of the master files of the applicants that were reviewed by the panel.
CDFI Program personnel established file security procedures wherein two individuals not involved in the review process, were given responsibility for key control for the Master Files. It was asserted that some files were accessed in the evening hours by locating the keys from the employee's desk and opening the Master Files without authorization.	CDFI Program personnel should develop better controls over the access to Master File keys.
Although procedures were established for checking out of Master Files (a logout card), this procedure was not placed into practice.	The CDFI Fund may want to enforce such a procedure to give the Fund and its employees better control over the location of Master Files.

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
B. ISSUES FROM MEETINGS/INTERVIEWS (cont'd)	
There was no documentation of the round one CDFI Program award process.	The CDFI Program director document the entire award process, beginning with controls over applications coming through the door to reviewer delegation, to review process, to award selection/notification to eventual disbursement.
Even though a review assignment tracking form was designed for use in the first award round, such a form was not placed into practice (attachment 14).	We recommend utilizing such a form to clearly delegate review tasks, and later, to identify the name of any reviewer.
There is no appeals process in place for applicants who do not meet the assistance agreement terms and, as a result, have their award revoked.	An appeals process should be in place and documented. Both the National Cancer Institute (see attachment 15) and the Department of Health and Human Services (see attachment 16) have appeals processes in place for those applicants who have their funding revoked or when the continuation of an award is not approved.
The Tier I, Tier II, Tier III processes did not occur chronologically in the order that it appeared in the federal register. Management stated that following this order was not feasible, and furthermore, it was not required by the regulations to be completed in this order. Management also stated that the federal register was going to be revised to alleviate this confusion.	Management should revise the regulations to make it more clear as to the chronology of events for the review process.

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
B. ISSUES FROM MEETINGS/INTERVIEWS (cont'd)	
Conflict of Interest statements were not completed for employees that participated as technical reviewers of panel members.	CDFI Fund should require conflict of interest statements from employees that participated as technical reviewers or panel members (see attachments 17-19). Employees should seek the general counsel's guidance as to whether or not they shall recuse themselves from "apparent" conflicts of interest. If applicable, such recusal shall be clearly documented (see attachment 13). The Office of Government Ethics has published the *Standards of Ethical Conduct for Employees of the Executive Branch* (attachment 20), which details definitions of conflict of interest and ethical standards.
Initial reviewers were also panel reviewers. This procedure gives the impression that the panel review process was less objective than it should be.	By separating the initial reviewers from the panel review process, the objectivity of the program's selection process is enhanced.
We found no set criteria for the questions that the reviewers can ask of the applicants during the review process. Management stated that the reviewers were given verbal instructions before the process on what was acceptable, an outline on what was permissible may have been given to the reviewers by EY has not seen this.	Criteria should be clearly defined and documented prior to the review process. Reviewer training and/or an evaluator manual that specifies review criteria should be created. Any questions asked of the applicants should also be reviewed by the program director relatively early in the process. A review of the questions asked by the reviewers gives the program director the opportunity to evaluate the application process for weaknesses (i.e. all of the reviewers needed clarifying information from the same area tells the director that there is confusion by the applicants on what is required.)
There are no written procedures for any parts of the award process.	A grant manual should be developed that documents policies and procedures and past procedure questions.

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
B. ISSUES FROM MEETINGS/INTERVIEWS (cont'd)	
The program director has no way of easily viewing the status of all the grants at any one point in time	A shared relational database should be developed to track the application and review processes. This will allow the program director and reviewers, to see where an application is in the review process and to identify and global problems that may develop over the course of the grant process.
Applications were reviewed by the program director and assigned to a reviewer after the deadline.	Applications should be assigned a category and reviewer when they come in the door to expedite the review process.
Applicants were only deemed ineligible if they were deficient in the business plan or financial projections.	Guidelines should be more strictly adhered to on the eligibility requirements. If a form is required and not completed, the applicant should be considered ineligible. The program was oversubscribed in the last round and probably will be so again in the next round. According to the PHS Discretionary Grant Work Team, established to streamline the grants process at the Department of Health and Human Services, weeding out those applications that fail to submit a completed application could accelerate the awards process when the program is highly subscribed. The National Endowments for the Arts also follows this procedure.
The disbursement process is very slow. The performance measures are negotiated with each awardee.	In order to streamline the process and expedite the award disbursements, performance measures should be set by the Fund and presented to the awardee for acceptance or rejection.

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
B. ISSUES FROM MEETINGS/INTERVIEWS (cont'd)	
CDFI Fund devoted hours of staff time to research the reasons and circumstances behind the late applications	The intent behind the late application review was to be as inclusive as possible, but this delayed the process. It is the applicants' responsibility to ensure that their application is delivered to the Fund before the deadline. Any late applications should be considered ineligible and returned to the applicant, as specified by the regulations.
All of the reviewers were brought together for a one day meeting/training. Some of the reviewers had already begun to evaluate applications.	The reviewer training should be done before the applications are reviewed. In the future a two tiered training session may be implemented: one for the experienced reviewers and one for new reviewers. Interaction between experienced and new reviewers is definitely encouraged to help answer questions on policies, procedures and precedents developed in prior rounds.
The program director acted as an initial reviewer, an advisor to other reviewers and a panel reviewer.	We strongly advise that in the future, the program director not act as an initial reviewer. The Fund may also consider using the program director as an advisor to the panel, rather than a full panelist. The separation of duties will give the appearance of more impartiality. The program officials' duties are outlined in the *Introduction to Grants and Cooperative Agreements for Federal Personnel* (see attachment 27). This manual offers recommendations on using reviewers from within the program officers. It states that anyone who has approving or disapproving authority or serving as a grants official should not be a reviewers. In addition, it also says that the program should consider the agency's internal structure, maintaining checks and balanced to assure objectivity, making efficient use of staff resources and the size of the awarding office when determining personnel responsibilities.
The applications were collected at two different points: at the Treasury Department and at the CDFI offices.	The applications should be collected at a central point, to lessen the chance of losing applications or mistaking any valid applications as late (or vice versa).
We noted that the reviewers were used to debrief the applicants that did not receive an award.	We were pleased that the CDFI implemented this procedure and encourage that it be used in future rounds.

EY 0605

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
C. FROM COMPARISONS TO BEST PRACTICES	
The CDFI Program could benefit from a comprehensive tracking mechanism to track the status of the Awards Process from beginning to end.	The CDFI Program should enhance its tracking system to track the status of the awards and monitoring process from beginning to end. This tracking system should be electronic. There are currently a number of programs that are employing automated grants tracking systems. The Fund may want to consider reviewing those systems at the Department of Education (Education Centralized Automated Processing System) and at the Department of Transportation.
There did not appear to be written criteria setting forth what constitutes a complete application. There was also no use of an application completeness checklist (see attachments 21-25).	An application completeness checklist with clearly-defined criteria should be designed to demonstrate the features of a complete application. The initial completeness review should be done by someone other than the technical/quality reviewer. Those applications that are concluded to be incomplete should be reviewed and signed off by a second person.
Late applications were accepted into the review process. A notice appeared in the Federal Register after the due date announcing the acceptance of those late applications (see attachment 26).	At the time of deadline cutoff, incomplete applications should be rejected from further review consideration. If a decision is made by the Fund to extend the deadline, the notice of the extension should be published in advance of the previously established deadline.
The reviewer memos that did not recommend an application for further consideration was placed into the files without the program directors signature	The evaluator review memo should have a place for both the reviewer's signature and the program director's signature.

EY 0606

CDFI Program Potential Observations & Recommendations	
Observations	**Recommendations**
C. FROM COMPARISONS TO BEST PRACTICES (cont'd)	
The program uses very little technology in the award process and management of grants.	More effective uses of technology should be adopted, including but not limited to, shared databases, the world wide web, email, and electronic bulletin boards. All of these tools would help to keep the reviewers, located across the country, to maintain daily communication with the program director, as well as make the application and Fund information more readily available to the public.
The Conflict of Interest statements signed by the outside reviewers uses very general language.	The statement should be more specific in listing what is considered as being a conflict of interest (see attachments 17-19).

EY 0607

CDFI Program
Observations & Recommendations
Attachments

Attachments	Tab
National Cancer Institute- "Priority Scores"	1
Centers for Disease Control - Evaluation Form	2
Department of Education's Discretionary Grants Reengineering Team - Quality Bands	3
CDFI Master File Table of Contents	4
Treasury Department File Table of Contents	5
Examples of CDFI Master File Items	6
School Workers Federal Credit Union File Labels	7
CDFI Program Application Form - Applicant Information	8
National Endowment for the Arts Application Form - Applicant Information	9
CDFI Evaluator Memo Samples	10
Annual Report Awardee Descriptions & File Labels	11
Department of Defense Export Loan Guarantee Program - Activity Log Samples	12
BEA Program Activity Log	13
CDFI Reviewer Assignment Tracking Form	14
Appeals Process from NCI	15
Appeals Process from DHHS	16
CDFI Fund Conflict of Interest Statement	17
? Conflict of Interest Statement	18
National Endowments for the Arts Conflict of Interest Statement	19
Standards of Ethical Conduct for Employees of the Executive Branch	20
CDFI File Completeness Checklist	21
Department of Defense Export Loan Guarantee Program - Application Status Sheets	22
BEA Applicant Timeline Sheet	23
? Awards Cover Sheet	24
Introduction to Grants and Cooperative Agreements for Federal Personnel Grant File Checklist	25
Federal Register Application Deadline Waiver Announcements	26
Introduction to Grants and Cooperative Agreements for Federal Personnel Review Process	27

EXHIBIT 19

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

1996

MEMORANDUM FOR KRISTEN MOY
DIRECTOR, COMMUNITY DEVELOPMENT FINANCIAL
INSTITUTIONS FUND

FROM: Alex Rodriguez
Deputy Assistant Secretary (Administration)

SUBJECT: Financial Services

The financial services which your organization needs to accommodate your unique needs have not been provided by my staff for any of the funds which we currently service. This information was provided to your staff via memorandum dated November 30, 1996, by the Accounting Officer (copy attached).

Because of the disruptions incurred in the Financial Management Division (FMD) because of the fire at the Main Treasury Building and the planned move of that organization, FMD will not be able to provide the financial services that you require.

You, therefore, need to acquire your financial services support from another source. If you have any questions, please call me.

Attachment

cc: George Muñoz
John Hawke

DAN / We have a Sole Source ~~Contract~~ opportunity To Help "CDFI" Analyze Its Accounting needs. Please Call To discuss, KM

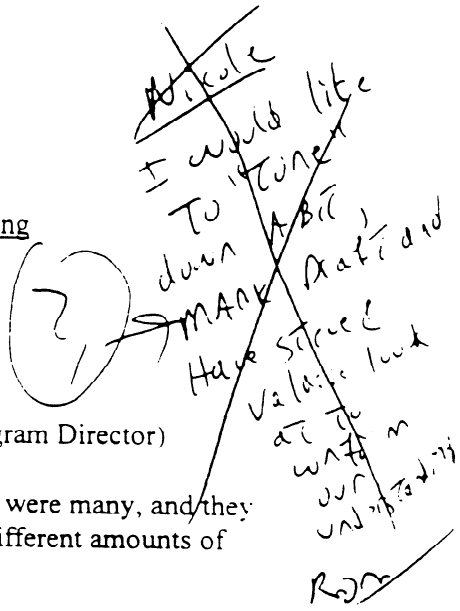
EY 0429

EXHIBIT 20

CDFI Program Application Process
Interview with Steve Rohde - Notes from Meeting

Date: Friday, December 13, 1996, 11:30 am

Parties to Meeting: Richard Matulis, SOZA
Rachel Lahrim, Ernst & Young
Steve Rohde, CDFI Fund (CDFI Program Director)



In the beginning, when applications were received, they knew there were many, and they varied a lot. There were different sizes of applicants applying for different amounts of money.

The typical approach of many government agencies is to set up a scoring system; however, given the complexity of the investment decision, there are a lot of subjective factors in the CDFI Program. A scoring system clearly wouldn't work. Would be a lot of baloney if they put a scoring system in place. They would probably manipulate it to make the end result whoever they want to receive awards.

Therefore, Steve's task was to set up a system to identify those which would be potentially competitive. His goal in the end was to have a final group of people (panel) to review all the applications and participate in in-person interviews. A five-person panel was needed to "thrash it out" and come up with a consensus. This would be a 1.5- to 2.0-hour interview to identify which were the strongest and most competitive applicants. He recognized that there would need to be a lot of interaction in the group in order to reach a consensus. In order to do that, they had to whittle down the number of applications to a feasible level.

One can contrast this process to that of another grant-making organization: Local Initiatives Support Corporation (LISC). LISC, in selection of their awardees, would do an initial screening, and then more reviewing, and then would have three people go and do site visits. They would break it up so that one site visitor would do 1/3, another would do 1/3, and so on. Later, when they tried to reach a consensus, it would be difficult, because only one person had all the site visit information. They could never agree, because they never had the same information. Steve wanted to ensure equal access to information. He wanted to avoid the type of situation LISC encountered. They decided that CDFI would pay the way for the interviewees to come to DC for the panel interviews.

In total, they received 268 applications. Steve took a cursory look at each one of them. This lasted only about 20-30 minutes each. That process of course took a while. The purpose was to identify/categorize the institution and to figure out an assignment process. The process was not finalized until several weeks after the applications came in. Steve had to decide what types of expertise would be needed.

One question Steve wanted to know is that if he does this, should he back-date or current-date such a memo.

Recognizing that Steve understood the purpose for a memo, we asked why he has not yet gone back and formalized something in writing. He replied that the scarcity of time was his biggest obstacle. It would involve taking several days of his time that he could set aside to do this and only this. Steve's question at this point was how soon it needed to be done. He has too many time crunches with NOFA's, etc. coming up right now.

Both Richard and I concluded that our help could really be used in this area.

Rachel Lahrim
12/27/96