



Federal Housing Finance Board

**REVIEW OF THE FEDERAL HOUSING FINANCE BOARD'S (FHFB)
IMPLEMENTATION OF OFFICE OF MANAGEMENT AND BUDGET
(OMB) CIRCULAR A-123
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**WITH INDEPENDENT ACCOUNTANT'S REPORT
ON AGREED UPON PROCEDURES**

Report Number 07-A-05-OM

Prepared By:

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October 30, 2007**

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OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-123
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BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT

Office of the Inspector General
Board of Directors
Federal Housing Finance Board
Washington, D.C.

We have performed the procedures referenced below, which were agreed to by Federal Housing Finance Board's (the Finance Board) Office of Inspector General's management, solely to assist the users in evaluating the implementation requirements with the revised Office of Management and Budget Circular A-123 "Management's Responsibility for Internal Control" for the fiscal year ended September 30, 2007. This agreed upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures applied throughout this engagement are enumerated in pages within this document. We are not engaged to, and did not; perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. We are not engaged to, and did not assess the Finance Board's internal controls themselves. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Federal Housing Finance Board Office of Inspector General Management.

Largo, Maryland
October 30, 2007

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I. Background

Office of Management and Budget (OMB) revised Circular A-123, "Management's Responsibility for Internal Control" is the implementing guidance for internal accounting and administrative controls. OMB defined the three objectives of internal controls in Circular A-123 as (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting, and; (3) Compliance with applicable laws and regulations.

Each year, the Finance Board's Chairman submits a report to the President on the status of management controls and financial systems that protect the integrity of agency programs and administrative activities.

To assist the Finance Board in evaluating its management control program, the Office of Inspector General (OIG) does an annual limited review of the Finance Board's implementation and assessments that are reported to its Chairman.

II. Objectives, Scope and Methodology

Within the Finance Board's organizational structure, four (4) offices and the Office of the Chairman on behalf of the Information Systems and Technology Support Division were required to submit the information relevant to assessing controls in accordance with OMB Circular A-123. This included:

- Office of General Counsel (OGC)
- Office of Inspector General (OIG)
- Office of Management (OM)
- Office of Supervision (OS)
- Information Systems and Technology Support Division (ISTS)

The Office of Board of Directors was not required to submit information since this office is the recipient of the results of the assessments and evaluation.

We reviewed the Finance Board's management processes, policies and procedures for implementation (and communication to its Chairman) of its requirements with Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control". Our objective was to determine whether the Federal Housing Finance Board complied with the implementation of OMB A-123, which requires Federal managers to establish a continuous process for evaluating, improving, and reporting on internal controls for which they are responsible.

Our limited scope review was performed in accordance with the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements and Generally

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II. Objective, Scope and Methodology (continued)

Accepted Government Auditing Standards established by the Comptroller General of the United States, and was conducted from August 30, 2007 through October 16, 2007 at the Finance Board's Offices in Washington, DC and our offices in Largo, Maryland.

III. Procedures Applied and Results

We were engaged by the Federal Housing Finance Board to assess the Finance Board's compliance with OMB Circular A-123. The objective was to determine whether the process used by the Finance Board for assessing the Agency's internal controls is properly implemented. Our procedures were as follows:

1. Reviewed the OMB Circular A-123, including the applicable Appendix B, "Improving the Management of Government Charge Card Programs" and the Finance Board's Policies and Procedures for implementing the requirements.

Results of Procedures

- A management analyst within the Office of Management was assigned the task of coordinating the implementation of the Circular's requirements this year. In addition, a management council was established to review FHFB's implementation results. This Council consisted of the CFO, CIO, Procurement Official and the management analyst.
- The OM prepared new documentation during FY 2007 that describes the controls in place over the accounting functions that are outsourced to the Bureau of Public Debt.
- The OS improved processes and controls to address the control deficiency with respect to the timeliness and completion of examination work papers and the review of work papers documentation following examinations.
- The position of Information Security Office (ISO) was filled by a government employee instead of a contractor as a result of a prior OIG recommendation.
- OM complied with Appendix B of the Circular. The Appendix requires Agencies to maintain internal controls that reduce the risk of fraud, waste and error in government charge card programs.
- Controls can be further improved by producing quality organization charts that delineate lines of responsibility. Also, expanding documentation concerning responsibilities within the Offices can strengthen controls and assist in eliminating possible confusion over responsibilities.

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2. Reviewed the Finance Board's implementation of requirements for fiscal year October 1, 2006 to September 30, 2007.

Ascertained whether:

- A senior level official was assigned for coordination of compliance with OMB Circular A-123.
- The agency followed its internal control directives.

We:

- Verified involvement of agency staff in the evaluation process; interviewed staff and ascertained the level of involvement in assessing quality of internal controls within the Departments.
- Verified whether Office Directors or senior level managers performed Vulnerability Assessment Profiles (VAP).
- Verified whether Office Directors or senior office level managers completed Management Control Questionnaires (MCQ).
- Verified whether Office Directors or senior level management from each office completed letters of assurance (addressed to the Chairman).

Results of Procedures

- Office Directors for the four offices and the Assistant to the Chairman for the ISTS submitted the required documents – the Letters of Assurance, the Vulnerability Assessment Profiles, and Management Control Questionnaires.
 - Each Letter of Assurance indicated involvement in the evaluation process by their staff. Based on our discussion with management personnel, we concur with this assessment.
 - One audit report was pending. The annual financial statement audit is underway for FY 2007. We did review the 2006 audit report.
3. We reviewed the risk assessment and management control questionnaire prepared by senior level managers for each Office and the ISTS.

Determined whether:

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- Management Control Questionnaire (MCQ) and Vulnerability Assessment Profiles (VAP) were consistent with assertions made in letters of assurance, and reports and other management information.
- Reviewed audit and evaluation reports for material weaknesses and non-material weaknesses.
- Reviewed documents submitted by senior level managers for completeness.
- Reviewed letters of assurance for plans and schedules to correct weaknesses.

Results of Procedures

Based on a review of all the required documents, we found that all required documents were submitted and completed from Office Directors and the Assistant to the Chairman for all required functions of the Agency.

Based on our review of the audit reports, we concluded that there was weakness in policies and procedures, as follows:

- Organization charts need to be improved to document lines of responsibility. Additionally, documentation of areas of responsibility for personnel should be prepared for each Office.

Based on the review of Management Control Questionnaires, Vulnerability Assessment Profiles and other management information, the weaknesses were properly documented and considered in the preparation of the VAPs and MCQs, with the exception of the organization chart and areas of responsibility issues. These are issues that were discovered by OIG during this review of OMB Circular A-123 implementation.

4. Performed follow-up on management's implementation of prior year recommendation from the 2006 Limited Review.

Results of Procedures

- Internal control weakness remains in ISTS policies and procedures. However, management is taking action to correct the weakness.

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- The Office of Management does not have an organization chart which shows the hierarchy and separation of duties for internal controls. We restated to the Acting Director, Office of Management the benefits of having a detailed organization chart. The Acting Director did not agree with the auditor's position. However, during an interview, the Acting Director provided clarification of the roles and responsibilities of the Office of Management's managers and staff. We have concluded that the Office of Management's organization structure provides adequate separation of duties.
- We inquired as to how the Office of Management ensures no conflict of interest when the Acting Director is also the Chief Procurement Officer and Chief Privacy Officer. The OM Acting Director explained that the Agency is a small organization and as such OM could not justify assigning these part-time responsibilities to separate individuals. The Agency delegated these responsibilities after studying the nature and details of duties to be performed by the Chief Procurement Officer and Chief Privacy Officer. During the review it was our understanding that the Acting Director does not initiate a purchase requisition or signs a payment voucher, and does not serve as COTR. However, the Agency response to the draft report clarified that the Acting Director is a COTR on an interagency agreement with OPM and approves IPAC vouchers. Therefore, we feel that the roles and responsibilities of the Acting Director (or Program Manager), Chief Procurement Officer (or Contracting Officer) and COTR may have a conflict of interest in the following procurement acquisition phases: (1) strategic planning, (2) investment review, (3) project initiation, (4) requirement analysis, (5) acquisition plan, (6) Pre-RFP considerations, (7) RFQ preparation and issuance, (8) evaluating offers, (9) source selection, (10) contract management, (11) contract changes and (12) contract closeout. At this time it does not appear the assessment process ensures adequate controls in segregation of duties to avoid conflict of interest situations for these roles and responsibilities. We recommend that the agency monitor the procurement activities to ensure compliance with sound procurement practices and avoid conflicts of interest situations.

IV. Prior Year Comment and Follow-Up to Management Response

Prior Year Comment:

- Organization charts that detail the positions within Offices should be improved. Charts in use are of limited value. Additionally, responsibilities of personnel within the Offices should be documented and distributed throughout the respective Office so that critical responsibilities by position are clearly communicated. This should improve controls by clearly presenting Office responsibilities.

Follow Up to Prior Year Management's Response:

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- The Director, OM provided the OIG with a response to the final draft report. In it, the Director of OM stated that they do "maintain organization charts that outline the structure and functional statements of each Office." Our point is that the charts should be improved. Organizations should use charts to clearly communicate authorities, responsibilities, and reporting structures to internal and external stakeholders. A review of other organization's charts found in reports on OMB and GAO websites show more detail and appear to be of more value.

VI. Current Year Recommendation

The Agency has adequately implemented the significant requirements of OMB Circular A-123 for fiscal year ending September 30, 2007.

However, as stated above:

During the review it was our understanding that the Acting Director does not initiate a purchase requisition or signs a payment voucher, and does not serve as COTR. However, the Agency response to the draft report clarified that the Acting Director is a COTR on an interagency agreement with OPM and approves IPAC vouchers. The roles and responsibilities of the Acting Director (or Program Manager), Chief Procurement Officer (or Contracting Officer) and COTR may have a conflict of interest in the following procurement acquisition phases: (1) strategic planning, (2) investment review, (3) project initiation, (4) requirement analysis, (5) acquisition plan, (6) Pre-RFP considerations, (7) RFQ preparation and issuance, (8) evaluating offers, (9) source selection, (10) contract management, (11) contract changes and (12) contract closeout. At this time it does not appear the assessment process ensures adequate controls in segregation of duties to avoid conflict of interest situations for these roles and responsibilities. We recommend that the agency monitor the procurement activities to ensure compliance with sound procurement practices and avoid conflicts of interest situations.

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VI. Office of Management's Response



Federal Housing Finance Board

November 6, 2007

To: Edward Kelley
Inspector General

From: David Lee
~~Acting Director, Office of Management~~

Subject: Response to Final Draft of Limited Review of FHFB's Implementation of Office of Management and Budget Circular A-123 for Fiscal Year Ended September 30, 2007

Thank you for the opportunity to comment on the Office of Inspector General Counsel's (OIG) draft audit report of the Limited Review of FHFB's Implementation of Office of Management and Budget Circular A-123 for Fiscal Year Ended September 30, 2007. The report presents the OIG's opinion on the Finance Board's implementation of A-123.

We are pleased to note that there are no current year recommendations. As for the prior year recommendation, we addressed that in last year's response and our position has not changed.

As for the report itself, there are a couple of minor clarifications. First, in paragraph 4, on page 6, what was said was that due to the Finance Board's small size, we could not justify hiring a full-time Chief Procurement Officer or Chief Privacy Officer as there was not sufficient work for a full-time position. Furthermore, I am a COTR on an interagency agreement with OPM where I approve IPAC vouchers.

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