

FEDERAL ELECTION COMMISSION

OFFICE OF INSPECTOR GENERAL



FINAL REPORT

**External Peer Review of the
Federal Housing Finance Board Office of Inspector General**

January 2008

ASSIGNMENT No. OIG-07-03



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

Office of Inspector General

January 9, 2008

Edward Kelley, Inspector General
Federal Housing Finance Board
1625 Eye Street, N.W.
Washington, DC 20006-4001

Dear Mr. Kelley,

The Federal Election Commission (FEC) Office of Inspector General (OIG) has reviewed the system of quality control for the audit function of the Federal Housing Finance Board (FHFB) OIG in effect for the year ended March 31, 2007. A system of quality control encompasses the OIG's organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of the FHFB OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for the OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the

system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Our *Scope and Methodology* appear as Exhibit A and *General Comments* appear as Exhibit B. The FHFB OIG response to the draft report is included as exhibit C. The FHFB OIG generally agreed with the findings and recommendations contained in the draft report.

In our opinion, the system of quality control for the audit function of the FHFB OIG in effect for the year ended March 31, 2007, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the year ended to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

We noted, however, conditions that warrant your attention, though they did not impact our opinion. These matters are described in the *Findings and Recommendations* that follow.

Findings and Recommendations

Condition 1: The audit programs for the two performance audits selected for peer review were not signed as approved or reviewed by the FHFB Inspector General (IG) prior to the commencement of audit fieldwork.

Criteria: The OIG manual states the following with respect to creating and approving an audit plan:

“A final go/no-go decision is reached when the IG directs actions to implement the workplan. Key to the decision is the creation of a short term management guide and a long term record. The following points must be addressed:

- *audit objectives and major tasks clearly stated;*
- *roles and responsibilities identified;*
- *provision for allocating resources, monitoring progress, and controlling or redirecting work.*

The approving official should sign and date the document.” (FHFB OIG Policy and Procedures Manual, section 600.04)

Cause: According to the OIG staff, “during the audit planning stage, decisions are made as to the scope of an audit and the audit steps required to achieve determined audit objectives. While much of this is left to the discretion of the auditor-in-charge, the IG approves all audit programs.” Based on the FEC OIG’s review of the two performance audit work papers, there was no evidence the approving official signed and dated the audit plans in accordance with the FHFB OIG’s manual. The audit programs were

developed after the entrance conferences and the FEC OIG's review of sign-off and edit activity indicates both audit programs were repeatedly updated by the FHFB OIG Audit Director and Auditor throughout the course of the audit. While we believe the IG was aware of the audit program and participated in program development, failure to approve and date the acceptance of the audit program at the audit inception prevents full compliance with OIG guidance.

Effect: The FHFB OIG is a small office with only three audit professionals and development of the audit programs primarily rests with the Audit Director and the Auditor. Unless the IG reviews and approves the audit programs prior to commencement of fieldwork, the FHFB OIG may perform audit testing that has not been adequately reviewed and approved by the IG, thus contravening its own control process. Further, as much of the audit program may be developed by the Audit Director, failure to document review and acceptance by the IG could result in a segregation of duties breach as the Audit Director will effectively review and approve his own work.

Recommendation 1: We recommend the FHFB OIG ensure the IG approves the audit plans by signing and dating the documents in accordance with the FHFB OIG manual. This may be accomplished by the IG using the review and sign-off function of the TeamMate electronic work papers project after planning and prior to commencement of fieldwork. Any changes or edits made to the audit program during the fieldwork and reporting periods, such as populating the program fields with document links to detailed testing, should be signed off by the IG prior to the exit conference. OIG guidance should be updated to reflect the use of standard electronic work papers and sign-off functionality.

Views of FHFB Inspector General

"All audit programs for audit work performed by or for FHFB-OIG are provided to and discussed with me before audit field work begins. Any subsequent changes are also provided to and discussed with me. However, I concur that I should more consistently document my supervisory reviews in accordance with FHFB-OIG's policies and procedures. This action will be taken immediately. With regard to my sign-off on cross indexing or links from audit work papers to the audit program, I disagree. The accuracy of such cross indexing is reviewed at the time the draft report is independently referenced. This referencing will occur before the draft report is issued for the exit conference."

Condition 2: The audit follow-up process is not performed in accordance with the FHFB OIG manual.

Criteria: The OIG Annual Plan states that outstanding audit findings are reviewed quarterly. In addition, the OIG manual states:

"800.02 OIG Responsibilities - OIG is primarily responsible for maintaining a follow-up system on audit reports, and to track and report on the status of efforts at implementing audit recommendations."

800.03 Management Responsibilities - The official responsible for analyzing and implementing a particular recommendation is also responsible for notifying and describing to the Audit Follow-up Official (AFO) and OIG what corrective action has been taken. This notification is used by OIG to update its tracking system. OIG will periodically verify corrective actions.

800.04 Records - In addition, a separate folder will be maintained summarizing and tracking all actions that have been taken and all prospective deadlines for all various audit reports and recommendations. This folder will contain "audit" follow-up spreadsheets in the form shown in Attachment B. The auditor who prepared the audit report is responsible for assuring that follow-up due dates is met and his/her entries in the spreadsheet are current and complete."

"800.05 Documenting and Verifying Resolution - Correspondence showing that the action official has taken the recommended corrective action is sufficient justification for finding it to be "resolved." OIG must give its written concurrence prior to the finding being designated "resolved." For a finding to be resolved, it must be wholly resolved."

800.07 Timeliness - The audit follow-up spreadsheet will be screened at least monthly for due dates, status reports, etc. Follow-up letters will be sent to each action official whose status report or response is overdue or who has failed to act promptly to clear a finding. If no response to the follow-up letter is received within five business days of the due date, a second letter will be sent to the next higher level official. If a response is still not received within five days, a letter will be sent to the Managing Director."

We noted the FHFB OIG's "Reports on Outstanding Audit Recommendations," covered the periods 1998 through 2004, and a separate listing for "Reports of Outstanding Audit Recommendations" was provided for 2004 through present. Neither report (spreadsheet) detailed whether the findings had been fully resolved through implementation, rather the reports detailed whether management concurred with the findings. According to OIG staff, follow-up on outstanding audit findings is performed when an area has additional audit activity conducted. The audit follow-up spreadsheets lack sufficient fields to detail finding implementation status as described in the audit follow-up process. Specifically, the spreadsheet does not have fields to record planned implementation date, OIG auditor correspondence with audit action official regarding finding status, or auditor verification activity as described in sections 800.04 and 800.07.

Effect: If the audit follow-up process is not performed as planned, FHFB findings may not be implemented as planned, therefore reducing the effectiveness of the FHFB OIG function.

Recommendation 2: We recommend the FHFB OIG improve the audit follow-up process. We recommend the audit finding tracking system include fields to track the estimated implementation date and status of the findings to reflect whether they have or have not been fully implemented. Based on the estimated date of implementation

established at the initial reporting stage, the OIG should initiate correspondence with the nominated official to determine whether or not a finding has been implemented. Where appropriate, and as described in the OIG manual, the OIG should verify whether the findings have been fully implemented and wholly “resolved” and record the result in the tracking system.

Views of FHFB Inspector General

“I agree that our audit follow-up process should be improved. Historically FHFB management tracked audit recommendations to resolution and implementation and provided the Chairman and IG with semiannual status reports. Due to management changes, the status report had been discontinued. However, agency management has agreed to resume their tracking of audit recommendations to implementation and will report their results semiannually. We will verify the accuracy of management’s report as we deem appropriate.”

The FEC OIG appreciates your office’s assistance and cooperation during the conduct of the peer review.

Sincerely,

A handwritten signature in cursive script that reads "Lynne A. McFarland".

Lynne A. McFarland
Inspector General

Peer Review Scope and Methodology (Exhibit A)

The FEC OIG tested compliance with the FHFB OIG's system of quality control to the extent we considered appropriate. These tests included a review of two of six OIG audit reports issued during the September 30, 2006 and March 31, 2007 semiannual reporting periods. In addition, we reviewed the OIG's monitoring activities of an independent public accounting firm contracted by the OIG to audit the fiscal year 2006 financial statements of the FHFB. We also reviewed, to the extent possible, the internal quality control reviews performed by the FHFB OIG.

Audit Reports Reviewed

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
07-A-01-OS/OM	January 2007	Recruitment, Selection and Retention of OS Staff for the Examination Function
06-01-OS	August 2006	Quality of the Examination Guidance Provided to Examiners

General Comments (Exhibit B)

The FEC OIG noted numerous positive audit practices of the FHFB OIG as follows:

- The FHFB OIG transitioned to TeamMate electronic work papers. Use of electronic work papers can greatly enhance the productivity of an audit through cross-indexing and automated work paper review, as well as decrease the amount of paper used and stored by an organization. All three FHFB OIG audits reviewed by the FEC OIG used TeamMate to capture all documents and thus reduce manual files and paper use.
- The FHFB OIG uses a remote Citrix server to ensure the Audit project files are available to multiple users, even if working remotely. Use of a remote server further incorporates disaster recovery features as well as supporting work-life balance programs to allow OIG and contract staff to work from home or an alternate worksite. Given the potential devolved locations for FHFB OIG audits, the use of a Citrix server is efficient and effective.
- We noted the use of a detailed survey of the Office of Supervision to determine audit risk and develop audit programs for that area. The detailed comments of the auditee responses received by the OIG clearly illustrated the need to review the bank examination manual creation and dissemination, and logically led to the subsequent review of recruitment and retention, as well as the planned examination practices review.
- We found the FHFB OIG audit programs to be logical and well developed with clear evidence of testing, data input and continuous review by audit staff team members.
- The FHFB OIG enjoys fully secure office facilities with badge reader access as well as separate secure storage and file area within the OIG area. We noted a state-of-the-art secure safe located in the Inspector General's office for even more segregation and secure storage.

The audit staff was knowledgeable and professional. We appreciate the time spent by the FHFB OIG assisting us in performing the Peer Review.

FHFB OIG Response to Draft Report (Exhibit C)



Federal Housing Finance Board

Office of Inspector General

1625 Eye Street, N.W., Washington, D.C. 20006-4001

Telephone: (202) 408-2544

Facsimile: (202) 408-2972

December 28, 2007

The Honorable Lynne McFarland, Inspector General
Federal Election Commission
999 E Street, NW
Washington, DC 20463

Subject: Report on the External Quality Control Review of the
Federal Housing Finance Board Inspector General Audit Organization

Dear Lynne:

We appreciate the work conducted by your staff in reviewing the quality control process for the audit function at the Federal Housing Finance Board (FHFB) OIG. We agree with your opinion that the system of quality control for the audit function meets the requirements established by the Comptroller General of the United States for a Federal Government audit organization. Additionally, my comments to the two recommendations on the final draft provided are detailed below.

Recommendation 1: We recommend the FHFB-OIG ensure the IG approves the audit plans by signing and dating the documents in accordance with the FHFB-OIG manual. This may be accomplished by the IG using the review and sign-off function of the TeamMate electronic work papers project after planning and prior to commencement of fieldwork. Any changes or edits made to the audit program during the fieldwork and reporting periods, such as populating the program fields with document links to detailed testing, should be signed off by the IG prior to the exit conference. OIG guidance should be updated to reflect the use of standard electronic work papers and sign-off functionality.

Response to Recommendation 1: All audit programs for audit work performed by or for FHFB-OIG are provided to and discussed with me before audit field work begins. Any subsequent changes are also provided to and discussed with me. However, I concur that I should more consistently document my supervisory reviews in accordance with FHFB-OIG's policies and procedures. This action will be taken immediately. With regard to my sign-off on cross indexing or links from audit work papers to the audit program, I disagree. The accuracy of such cross indexing is reviewed at the time the

draft report is independently referenced. This referencing will occur before the draft report is issued for the exit conference.

Recommendation 2: We recommend the FHFB-OIG improve the audit follow-up process. We recommend the audit finding tracking system include fields to track the estimated implementation date and status of the findings to reflect whether they have or have not been fully implemented. Based on the estimated date of implementation established at the initial reporting stage, the OIG should initiate correspondence with the nominated official to determine whether or not a finding has been implemented. Where appropriate, and as described in the OIG manual, the OIG should verify whether the findings have been fully implemented and wholly “resolved” and record the result in the tracking system.

Response to Recommendation 2: I agree that our audit follow-up process should be improved. Historically FHFB management tracked audit recommendations to resolution and implementation and provided the Chairman and IG with semiannual status reports. Due to management changes, the status report had been discontinued. However, agency management has agreed to resume their tracking of audit recommendations to implementation and will report their results semiannually. We will verify the accuracy of management’s report as we deem appropriate.

Thank you for the professionalism shown and your efforts in completing this review. If you have any questions, please contact me at (202) 408-2544, or Jay at the same number.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward Kelley", with a long horizontal flourish extending to the left.

Edward Kelley
Inspector General