

# **FEDERAL HOUSING FINANCE BOARD**



## **AUDIT REPORT**

DISPOSITION OF IT EQUIPMENT

REPORT NUMBER: 08-A-02-OM/ISTS

*Prepared by the*

OFFICE OF INSPECTOR GENERAL

*EDWARD KELLEY  
INSPECTOR GENERAL*

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# *FEDERAL HOUSING FINANCE BOARD*



## *AUDIT REPORT*

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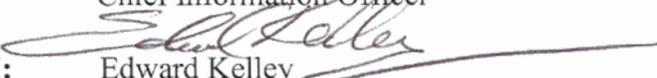
**AUDIT REPORT**  
Office of Inspector General  
FEDERAL HOUSING FINANCE BOARD

Issue Date: April 24, 2008
Report Number: 08-A-02-OM-ISTS

**MEMORANDUM**

**TO:** David A. Lee  
Acting Director, Office of Management

Tom Leach  
Chief Information Officer

**FROM:**   
Edward Kelley  
Inspector General

**SUBJECT:** OIG Audit Report on the Disposition of IT Equipment

**INTRODUCTION**

We have completed an audit of the Federal Housing Finance Board's Disposition of Information Technology (IT) Equipment. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The objective of our audit was to determine whether Federal Housing Finance Board (Finance Board) IT equipment was disposed of properly - particularly in conjunction with the outsourcing of the Finance Board's IT function.

We found that the Office of Management (OM) did not adequately dispose of IT equipment during a portion of the period we reviewed. As a result, for the period, April 30, 2003 through October 20, 2004, some IT equipment is missing and should be reported to Congress. However, for the remainder of the period we reviewed, October 21, 2004 through March 12, 2007, OM and the Information Systems Technology Support Division (ISTSD) have adequately tracked IT inventory items.

Comments provided by Finance Board management reflect partial disagreement with our recommendations by the Acting Director of the Office of Management and the Chief Information Officer. All comments have been incorporated into the report as appropriate and the full text of all written comments provided is appended to the report.

## SCOPE

To accomplish our audit objectives, we identified and reviewed relevant laws, regulations, policies, and procedures that relate to the Finance Board's disposition of IT equipment in order to establish criteria for us to measure whether IT equipment was properly disposed of, and to ensure that the agency has adequate policies and procedures. We also obtained from Office of Management officials, their most accurate listing of IT equipment and IT equipment dispositions in order for us to test the propriety of disposition activity. We conducted interviews with agency managers and staff of OM and ISTSD, as well as an FDIC property management specialist to assess the procedures and practices followed in the disposition of FHFB's IT equipment. We assessed the adequacy of OM's IT inventory documents and performed a physical inventory verification of IT equipment shown on those documents to assess their accuracy. Additionally, we developed flowcharts and risk analysis matrices to identify potential risks and help focus our audit scope.

We limited our review of the agency's "IT equipment" inventory items, which we define as: communications components (switches, hubs, and routers), desktop personal computers (PCs), flatbed scanners, computer cabling, laptop PCs, modems, personal data assistants (PDAs), scanners, printers, servers, uninterruptible power supply (UPS), docking stations, autopens, printers, and monitors.

## EXECUTIVE SUMMARY

We have completed an audit of the Federal Housing Finance Board's Disposition of Information Technology (IT) Equipment. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The objective of our audit was to determine whether Federal Housing Finance Board (Finance Board) IT equipment was disposed of properly in conjunction with the outsourcing of the Finance Board's IT function.

We found that OM did not adequately dispose of IT equipment during a portion of the period we reviewed. As a result, for the period, April 30, 2003 through October 20, 2004, some IT equipment is missing and should be reported to Congress. However, for the remainder of the period we reviewed October 21, 2004 through March 12, 2007 OM and ISTSD have adequately tracked IT inventory items. Specifically, for the period April 30, 2003 through October 20, 2004, OM officials did not adequately track all IT inventory from purchase to disposition and did not account for 127 items or 27% of IT equipment included in our sample. Further, 50 items or 39% of these unaccounted for IT items potentially contained Personally Identifiable Information (PII) or Information in Identifiable Form (IIF).<sup>1</sup> In OMB's implementing guidance "PII" and

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<sup>1</sup> OMB memorandum M-06-19 dated July 12, 2006, titled "Reporting Incidents Involving Personally Identifiable Information and Incorporating the Cost for Security in Agency Information Technology Investments", defines PII as:

" Any information about an individual maintained by an agency, including, but not limited to, education, financial transactions, medical history, and criminal or employment history and information which can be

“IIF” are used interchangeably. For purposes of this audit, we used “PII” to describe this type of information throughout this report. OM officials never reported the fact of these missing IT items to the Congress as required by the Consolidated Appropriations Act of 2005 and related OMB guidance or to the Office of Inspector General, in accordance with agency property management policy.

We also found that inadequate agency policies and procedures have contributed to inventory management problems. Specifically: 1) the Property Management policy dated August 26, 2005 does not adequately ensure accountability in managing the IT inventory and results in increased potential for misuse or loss of property data or physical assets, 2) changes to property management policies and procedures are not consistently sent to the Office of General Counsel (OGC) for review before implementation, 3) there are no written policies and procedures to ensure that OGC continues to document its reviews of agency policies and procedures, and 4) the Office of the Chairman does not have a written policy that documents the current practice of requiring and verifying OGC’s review of draft policies from originating agency offices before final approval.

We recommend the following corrective actions to address our findings:

- A. The Acting Director of OM and the Chief Information Officer (CIO) should coordinate to ensure that:
  - 1) each IT inventory item purchased or leased by the Finance Board is added to the existing inventory listing within one business day after receipt and that all required data fields on the list are properly completed;
  - 2) reports are prepared for all inventory items at the time they are excessed (sold, donated, or scrapped) and the reports contain: a) adequate information to link the items to the inventory listing, and b) certification of accuracy statements that are signed by the preparer and recipient;

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used to distinguish or trace an individual’s identity, such as their name, social security number, date and place of birth, mother’s maiden name, biometric records, etc., including any other personal information which is linked or linkable to an individual.” []

Section 522(f) of the Consolidated Appropriations Act, 2005, indicates that the definition of ‘identifiable form’ is consistent with Public Law 107–347, Section 208 of the E-Government Act of 2002, and means:

“any representation of information that permits the identity of an individual to whom the information applies to be reasonably inferred by either direct or indirect means.”

- 3) reconciliation reports are consistently completed within one business day after each physical inventory count. Any missing items identified are investigated by OM or ISTD, and a copy of the reconciliation report is provided to the Inspector General; and
- 4) property management policies and procedures are revised to strengthen controls at a minimum by:
  - a) Providing clear definitions of such phrases as “sensitive property” and “IT equipment”;
  - b) Specifying the information to be included on the inventory listing to facilitate proper tracking of inventory items;
  - c) Documenting and clarifying the prohibition against Finance Board employees purchasing excessed IT equipment,
  - d) Documenting and clarifying the procedures for maintaining equipment disposition records, and
  - e) Documenting and clarifying who is responsible for the physical transfer of excessed equipment.

The Acting Director of OM and the Chief Information Officer (CIO) indicated partial disagreement with five of our six recommendations directed to them. With regard to the findings, they wrote that the draft report does not reference OIG’s prior Financial Statement audits for FY 2003 through 2007 in which there were no references to the problems we identify in this report. Additionally, they commented that we have provided no evidence to support an allegation of lost or stolen IT equipment.

Because we were engaged in planning and conducting this audit at the time, the scope of our FY 2003 through 2007 financial statement audits did not include verifying the agency’s IT inventory at the time the agency’s IT infrastructure support function was contracted out. Consequently, our contract auditors did not opine on this issue.

With regard to comments that we have not proven that equipment was lost or stolen, we disagree. Based on inventory listings provided us by OM and ISTSD officials, we documented IT items that their records indicated were in our inventory. As our report details, to date they have been unable to locate these items or provide any support that the items were listed erroneously by them and that they never existed.

- B. The General Counsel should continue their internally developed procedures to sign-off on proposed policies and procedures and retain the review coordination sheets for one year after signing.

The Associate General Counsel commented that they are currently following the practice in recommendation "B" and plan to continue to do so.

- C. The Counsel to the Chairman should prepare a written policy that documents the current practice of requiring and verifying OGC's review of draft policies from originating agency offices before final approval.

The Counsel to the Chairman did not provide written comments but orally advised us that he agreed with our recommendation "C" and will provide us an implementation plan after the issuance of our final audit report.

- D. The Chief Privacy Officer (CPO) should: 1) maintain accurate and complete records documenting that IT equipment with data storage devices, such as hard drives, are properly wiped prior to being reassigned or disposed of in order to prevent unauthorized disclosure of PII and confidential information, and 2) report the possible loss of equipment that could contain PII in accordance with OMB memorandum M-06-19 dated July 12, 2006, and OMB memorandum M-07-19, dated July 25, 2007 titled "FY 2007 Reporting Instructions for the Federal Information Security Management Act, and Agency Privacy Management."

The Acting Director of OM agreed with recommendation 1). However, the Acting Director of OM and the Associate General Counsel, disagreed that IT items that OIG identified during the audit as possibly lost or stolen should be reported. They advised that reporting is not required because the possible loss or theft of the items occurred in Fiscal Year 2003 - prior to the enactment of the Consolidated Appropriations Act of 2005 and the Act's reporting requirements are not retroactive.

We have reviewed this matter with our Counsel and disagree with OM and OGC's position. OIG identified the possible lost or stolen items after the Act was enacted. The Act and related OMB guidance clearly require reporting of such incidences once they are identified. Consequently, the agency had a responsibility to report after being notified by OIG even though the possible loss or theft occurred in Fiscal Year 2003.

## **BACKGROUND**

The Federal Housing Finance Board contracted out the IT infrastructure operations support function as of May 27, 2003 and according to the CIO, has agreed to a five year extension of the five year contract. In requesting bid proposals for the initial contract, OM officials included a listing of Finance Board owned equipment on hand as of March 20, 2003 for potential bidders' use in preparing the bids. The listing included 512 pieces of IT equipment. Under the initial contract that was awarded, the contractor is responsible for deploying Finance Board owned IT equipment as needed and for supplying additional equipment necessary to provide the level of service the Finance Board requires. This includes periodic upgrades of Finance Board IT equipment at no additional cost to the agency. However, the contract does



allow for Finance Board purchasing of IT equipment. The contractor is also responsible for maintenance and support.

OM officials anticipated that most, if not all, IT equipment owned or leased by the Finance Board will be disposed of and only contractor-owned IT equipment will remain in service at the Finance Board in accordance with the terms and agreements governing the contract. However, contrary to that goal, the Finance Board's CIO advised us that he decided that the Finance Board—not the contractor—will purchase all IT equipment for the network backbone upgrade. The Information Technology network upgrade is required to comply with the government's requirements that agencies perform an Internet Protocol Version 6 (IPV-6) upgrade. The total IT network equipment upgrade costs to the Finance Board, according to the CIO, is \$116,781. Consequently, the Finance Board will continue to have a substantial amount of IT equipment in the Finance Board's inventory management systems.

In November 2005, the agency changed its inventory management and tracking system to a newer "property management system" application, made by BMC Software, Incorporated, called "Magic Service Desk" (MAGIC). MAGIC is a stand-alone system that does not integrate with the agency's accounting system, which is an Oracle-based system. As a result, the agency accounting records are updated independently at the time of the purchase, donation, or disposal of excess IT equipment. Additionally, the MAGIC system does not have the ability to roll back transactions (i.e., to retrieve a report as of a certain date).

The FHFB has IT equipment at four locations: Sterling, Virginia; San Jose, California; McLean, Virginia; and Washington, DC.

## **FINDINGS AND RECOMMENDATIONS**

### **OM and ISTSD Officials Cannot Locate at Least 127 IT Inventory Items, of Which at Least 50 Could Contain Sensitive Agency Information or Personally Identifiable Information (PII).**

The Finance Board's process for disposing of IT equipment should incorporate federal guidance on management controls, agency policies and procedures, and best practices. Collectively, these criteria require the establishment of an inventory management system that tracks IT and other inventory from the time they are received by the Finance Board to their disposition. Additionally, the guidelines, policies and procedures and best practices include steps that should be followed in the event IT equipment is lost or stolen. In the absence of good internal controls, OM did not adequately dispose of IT equipment during a portion of the period we reviewed. As a result, for the period, April 30, 2003 through October 20, 2004, some IT equipment is missing and should be reported to Congress. However, for the remainder of the period we reviewed October 21, 2004 through March 12, 2007 OM and ISTSD have adequately tracked IT inventory items.

During the period April 30, 2003 through October 20, 2004, OM officials did not fully comply with agency internal controls over IT inventory. Specifically, OM and ISTSD officials

did not consistently update agency inventory records to indicate when and why IT equipment was removed from service. In addition, OM officials did not comply with agency procedures to develop a report on items not located during inventory counts, to investigate missing inventory items, and to report instances of missing inventory items to the Office of Inspector General. As a result, of the 478 IT equipment items we sampled, 27 percent (127 items with an estimated value of \$17,000) were lost or stolen and of the lost or stolen items, 39 percent (50 items) contained Data Storage Devices (DSDs) and thereby potentially contain sensitive agency information or information that could facilitate identity theft. In the absence of an effective inventory management system, however, neither officials in OM nor ISTSD were aware of these missing items until we brought it to their attention; and to date the officials have not accounted for the missing items.

### **Agency Internal Controls Were Not Consistently Implemented and Not Comprehensive**

The Federal Manager's Financial Integrity Act and OMB's implementing guidance, Circular A-123, Management Accountability and Control, state that management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriations. Circular A-123 adds that management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives. Controls over the Finance Board IT inventory were not consistently applied and did not address some vulnerable areas.

### **Inconsistently Implemented Policies and Procedures Resulted in Unaccounted for Inventory Items.**

During the period of review, we observed that the Finance Board's current Property Management policy dated August 26, 2005 and the prior policy dated August 25, 2004, included some requirements that, if implemented, would have greatly facilitated the safeguarding of inventory items. However, neither of the policies and procedures was consistently implemented and as a result, we were unable to determine the disposition of all IT equipment we sampled from the agency's inventory list as of April 30, 2003.

As the following Table 1 shows, at least 127 out of 478 IT equipment inventory items shown on OM’s April 30, 2003 IT Inventory Listing Report are unaccounted for and are lost or stolen. The items were not on the current inventory listing, not observed during the physical observation process, and no record exists that the items were excessed or scrapped. Of these 127 lost or stolen items, 39 percent (50 items) contained data storage devices (DSDs), such as hard drives that could contain Personally Identifiable Information (PII).

**Table 1: Schedule of Lost or Stolen IT Inventory Items**

<u>TOTAL BY CATEGORY</u>	<u>MISSING ITEMS</u>	<u>ITEM MKT VAL</u>	<u>TOTAL VALUE</u>
Communications Component	7	\$72 ea	\$ 504.00
Desktop PC *	3	various	140.46
Flatbed Scanner	3	490.9 ea	1,472.70
KVM	1	5.88 ea	5.88
Laptop PC *	18	various	4,751.90
Modem	1	5.95 ea	5.95
PDA *	15	various	825.00
Scanner/Printer	2	various	554.89
Server *	14	various	5,576.64
UPS	3	various	1,555.33
Docking Station	32	various	354.80
Autopen	1	249.99 ea	249.99
Printer	10	various	1,039.80
Monitor	<u>17</u>	various	<u>519.58</u>
	<b><u>127</u></b>		<b><u>\$17,556.92</u></b>

Legend: \* - Asterisks indicate IT inventory items that contain Data Storage Devices (DSDs) that could contain Personally Identifiable Information (PII).

We identified three agency required property management reports that are critical to good property management and would have ensured accountability for IT equipment but have not been consistently implemented. Specifically:

**Inventory Listing Report:** Agency policies and procedures require OM officials to maintain this report which lists all inventoried items owned or leased by the Finance Board – including IT equipment. However, for the period April 30, 2003 through October 20, 2004, OM did not maintain an accurate report. For example, we compared the list of IT items that OM included in the Request for Proposals issued on March 20, 2003 with a listing of IT inventory items OM provided us in response to our request for the April 30, 2003 Inventory Listing Report. Each list contained IT inventory items that were not on the other list and where there were matches, the number of items reportedly in inventory differed. The initial April 30, 2003 Inventory Listing Report provided to us

by OM contained 853 items. However, it contained 126 duplicates (15% of total), 93 items that had been excessed to public schools, and 130 items that had been excessed to the Federal Deposit Insurance Corporation (FDIC) which reduced the actual inventory count to 478 items. After several requests for an accurate inventory listing, OM officials advised us that they were unable to provide a more accurate listing. OM officials advised us that prior to our requests, in early calendar year 2004; they did reconcile the inventory records to the procurement records and determined that all IT items purchased by the Finance Board had been accounted for. However, despite our requests, we were not advised of the reconciliation effort at the time, and the results of the reconciliation were not documented by OM to allow us to confirm their conclusion. Further our efforts to confirm OM's conclusion were unsuccessful because 127 IT items (27 percent) that were on the list of 478 items could not be physically located. Of these 127 items, 46 items (9.62 percent of 478 items) had incomplete serial numbers; and 4 items (.08 percent of 478 items) had missing serial numbers which made tracing these items to the procurement records impossible.

Since November 2005, the Finance Board has implemented a new inventory management system – the MAGIC system. Based on our limited review of the new system, the agency does appear to have an inventory system that accurately documents inventory items owned or leased by the Finance Board. The system is not integrated with the accounting and procurement process to allow automatic additions to the system when IT items are received. The CIO advised that he did consider an integrated procurement system prior to purchasing the stand-alone MAGIC system but the decision was ultimately made not to go with an integrated system.

***Excess Property Report:*** Agency policies and procedures require that this report be prepared by OM officials and that it list all property declared excess and transferred to the Department of Agriculture or the FDIC. The report includes the serial number, description, and disposition date for such property. When accountable property is disposed of, the property record should be removed from inventory. The report should be readily available as needed, upon disposal or transfer of property. A copy of the report should be submitted to the Budget and Accounting Division. However, OM officials could not provide us support that excess property reports were consistently prepared, and the reports they provided to us did not have all the information required by agency policies and procedures. Consequently, we were unable to rely on the reports to account for unlocatable IT equipment in our sample. For example, we reviewed seven Excess Property Reports and found that they were missing documentation critical to establishing accountability for the accuracy of the reports as indicated below in Table 2, Missing Information from Excess Property Reports. Specifically, the table shows:

- The most recent three Excess Property Reports from 10/18/05 – 3/12/07 had no statements certifying that the individuals authorizing, executing and receiving the excess/disposed items had accounted for all of the items, although certification statements had been used on the previous four Excess Property Reports from 5/14/04 through 9/23/04 and;

- We identified three out of seven Excess Property Reports from 10/18/05 – 3/12/07 that were incomplete, because they had missing signatures.

**Table 2: Missing Information from Excess Property Reports**

Review Criteria		Document 2	Document 3	Document 4
<b>Adequacy of Signatures?</b>				
Person authorizing disposal		Yes	Yes	Yes
Person executing disposal		Yes	Yes	Yes
Person receiving disposed items		Yes	Yes	Yes
<b>Date Shown?</b>				
Person authorizing disposal		Yes	Yes	Yes
Person executing disposal		Yes	Yes	Yes
Person receiving disposed items		Yes	Yes	Yes
<b>Certification Statement</b>				
Person authorizing disposal		No	No	No
Person executing disposal		No	No	No
Person receiving disposed items		No	No	No

As it relates to the discontinued certification statements for the Excess Property Reports, the Acting OM Director indicated that he would argue that since the independent inventory reviewer signed the reports, he was certifying to their accuracy. Conversely, we believe that without a detailed certification statement indicating that all IT inventory items on the Excess Property Reports were verified as being received, a signature alone does not provide as strong a confirmation that all items were accounted for and received. The Acting Director of OM provided no explanation as to why the forms no longer include a certifying statement.

**Inventory Reconciliation Report:** Agency policies and procedures require that this report be prepared and issued upon completion of a physical inventory. This report highlights the difference between agency inventory records and the results of the physical inventory. OM officials determine the disposition of items not found – whether lost or stolen - and adjusts the property records. IT equipment that is donated, transferred or

otherwise disposed of should be listed as excess in the property management system inventory, by OM officials. Proper documentation of the transaction should be maintained by OM officials in their property management files. For lost items, an investigation should be conducted to confirm that the item is missing and not reassigned. OM officials are required to refer the report to the Inspector General if there is indication of theft, mismanagement, fraud or other criminal activity. We reviewed documentation for four physical inventory counts of IT inventory items during the period of our review. The former OM Director provided us with an inventory list they advised was created in early calendar year 2004 from procurement records to identify items that should be on hand at the Finance Board. That same former official advised that all IT items purchased by the agency were accounted for on the list. This list was used to perform the independent physical inventory count on October 21, 2004. However, contrary to agency policy, differences in the list and the results of the physical inventory were not reconciled. Instead, OM officials accepted the inventory located as the new inventory. Consequently, OM officials effectively wrote-off an undeterminable amount of agency inventory rather than attempt to account for it. In the absence of such reconciliation, we are unable to account for the 127 IT items (27 percent) that could not be physically located.

The former Director of OM could not explain why the October 21, 2004 physical inventory results and the inventory list were not reconciled and resulted in some undetermined amount of inventory being written off.

In addition, during the course of our audit, we repeatedly requested a listing of agency IT inventory as of April 30, 2003 – the date the IT function was outsourced. However, OM officials, after three attempts, were unable to provide an accurate listing of the agency IT equipment that was being transferred to the control of the contractor.

The former OM Director conceded that the three different April 30, 2003 *FHFB Inventory Items* reports provided in response to our requests on May 13, 2005, May 17, 2005, and August 9, 2005, were useless due to inadequate design of the prior inventory system and inadequate staff oversight over the inventory system and the inventory accounting process. However, when she arrived at the Finance Board in 2002, her top priorities did not include oversight over the agency's IT inventory items. Instead, her priorities were: getting the agency's accounting system running, and hiring a new Office of Supervision Director. The first time she became aware of inventory weaknesses was when she saw them reported in the IG financial statement audit reports for FY 2003 and both recommendations were addressed by OM before the following FY 2004 financial statement audit. Further, she said that in the early part of calendar year 2004, she convened a group to create an IT inventory listing based on the agency's procurement and budget records. However, the former Director could not provide information on missing inventory items - the reconciling differences between the inventory listing and the procurement and accounting records. She directed us to a copy of the inventory listing that resulted from the reconciliation. This listing was used by a contracted FDIC official to perform an October 21, 2004 independent physical inventory count. We reviewed the list but did not locate any of the 127 items we have identified as missing.

Thus, there continued to be a discrepancy within the Finance Board's property management records for its IT equipment during the review period.

The CIO advised that at the time of our review, the equipment we identified as missing was no longer in the agency's possession and that he could not say for sure what the disposition was (donated, excessed through FDIC, thrown away, etc.). The CIO also conceded that there were various concerns with the April 30, 2003 inventory listing, because some equipment descriptions were inaccurate, and could not be corrected because a number of purchase orders did not include sufficient detail to identify the specific IT inventory items. The Acting OM Director, who was the agency's Contracting Officer during the period we audited, agreed with the CIO's comment.

Since the physical inventory count was completed on October 21, 2004, OM and the CIO have maintained an inventory listing that, based on our testing, appears to properly document the status of IT inventory items. However, changes to the inventory listing are not tied to the accounting records to allow simultaneous updates.

#### **IT Items are not Locatable because Some Needed Agency Controls for Safeguarding IT Inventory are Missing**

Agency property management policies and procedures should require various internal controls to discourage and prevent fraud, waste, and abuse. In addition, any changes to the policies and procedures should undergo a documented review by the Office of General Counsel (OGC) before they are implemented to ensure their compliance with applicable laws and regulations. The Finance Board's property management policies and procedures do require certain controls that, if implemented, would provide adequate safeguards for agency owned and leased property but changes to the policies and procedures show a trend away from strong controls. Further, there is no documentation that changes in the policies and procedures are consistently sent to OGC for review and reviewed by OGC before implementation.

As the following table shows, since October 2000, the agency's inventory management policies and procedures have been revised three times - October 2, 2000; August 25, 2004; and August 26, 2005. However, as the table also shows, the policies and procedures have consistently gotten worse in providing guidance necessary to ensure consistent and adequate control over the agency's IT inventory. In fact, the current policies and procedures do not have any of the six elements below we believe are necessary for an effective property management system.

**TABLE 3: Changes in FHFB's Property Management Policies Dated October 2, 2000, August 25, 2004, and August 26, 2005**

Policy	10-2-2000	8-25-2004	8-26-2005
Policy assigns responsibility for designating "Sensitive Property."	No	No	No
Policy provides a definition of what constitutes "IT Equipment."	No	No	No
Policy addresses whether the sale of disposed or excessed IT items to Finance Board staff is allowable.	Yes	No	No
Policy establishes procedures for keeping excess/disposal records current.	Yes	No	No
Policy describes method for tracking each IT item - such as bar coding - to facilitate physical inventory count.	Yes	No	No
Responsibility for physical custody over property to be excessed is assigned to a government employee.	Yes	No	No

The Acting Director of OM advised us that he would commit to looking at updating the policy and taking these items into consideration. Regarding the absence of a policy related to the "sale of equipment to employees" in the 2004 & 2005 policy updates, the former Director of OM advised that the agency has never sold any equipment and no equipment was sold during the 2003-2004 time frames.

The Acting Director of OM advised that approximately two years ago, a procedure was established to circulate all policies through the OGC and that procedure is followed; however, they could not provide any documentation showing that this procedure was implemented. Further, as of March 2007, an OGC official advised us that they had no records to indicate any of the three policies shown in the table above were reviewed by anyone in OGC prior to their implementation nor did they recall reviewing any of the three documents. Consequently, we were unable to assess the number of times OGC reviewed proposed policies and procedures or reviewed OM's incorporation of OGC's comments into the final policies and procedures. Currently, the Counsel to the Chairman ensures that OGC has reviewed proposed policies and procedures, prior to approving the policy. However, the Office of the Chairman does not have a written policy to ensure that these procedures would continue if there is a change in the Counsel to the Chairman position.

**Recommendations:**

- A. The Acting Director of OM and the CIO should coordinate to ensure that:
- 1) each IT inventory item purchased or leased by the Finance Board is added to the existing inventory listing within a business day after receipt and that all required data fields on the list are properly completed;
  - 2) reports are prepared for all inventory items at the time they are sold, donated, or scrapped and the reports contain: a) adequate information to link the items to the inventory listing, and b) certification of accuracy statements that are signed by the preparer and recipient;
  - 3) reconciliation reports are consistently completed within one business day after each physical inventory count. Any missing items identified are investigated by OM or ISTD, and a copy of the reconciliation report is provided to the Inspector General; and
  - 4) property management policies and procedures are revised to strengthen controls at a minimum by: a) providing clear definitions of such phrases as "sensitive property" and "IT equipment"; b) specifying the information to be included on the inventory listing to facilitate proper tracking of inventory items; c) documenting and clarifying the prohibition against Finance Board employees purchasing excessed IT equipment, d) documenting and clarifying the procedures for maintaining equipment disposition records, and e) documenting and clarifying who is responsible for the physical transfer of excessed equipment.
- B. The Office of the General Counsel should continue their internally developed procedures to sign-off on proposed policies and procedures and retain the review coordination sheets for one year after signing.

- C. The Counsel to the Chairman should prepare a written policy that documents the current practice of requiring and verifying OGC's review of draft policies from originating agency offices before final approval.

**Auditees' Responses:**

- A. The Acting Director of OM and the CIO indicated partial disagreement with our four recommendations and their written comments did not address some aspects of our recommendations. With regard to the findings, they wrote that the draft report does not reference OIG's prior Financial Statement audits for FY 2003 through 2007 in which there were no references to the problems we identify in this report. Additionally, they commented that we have provided no evidence to support an allegation of lost or stolen IT equipment.

Because we were engaged in planning and conducting this audit at the time, the scope of our FY 2003 through 2007 financial statement audits did not include verifying the agency's IT inventory at the time the agency's IT infrastructure support function was contracted out. Consequently, our contract auditors did not opine on this issue.

With regard to comments that we have not proven that equipment was lost or stolen, we disagree. Based on inventory listings provided us by OM and ISTSD officials, we documented IT items that their records indicated were in our inventory. As our report details, to date they have been unable to locate these items or provide any support that the items were listed erroneously by them and that they never existed.

- B. The Associate General Counsel commented that they are currently following the practice in recommendation "B" and plan to continue to do so.
- C. The Counsel to the Chairman did not provide written comments but orally advised us that he agreed with our recommendation "C" and will provide us an implementation plan after the issuance of our final audit report.

**Possible Reportable Privacy Violations Result From 50 Missing IT Inventory Items That Could Contain Personally Identifiable Information (PII).**

National Institute of Standards and Technology's (NIST's) Federal Information Processing Standards Publication (FIPS PUB) 200, dated March 2006, titled "Minimum Security Requirements for Federal Information and Information Systems" and Finance Board policies and procedures require that data storage devices in computers be properly cleaned of all information before the computers are redistributed or disposed of.<sup>2</sup> These requirements are aimed at insuring that sensitive agency information and more recently employees' personally identifiable information are not inadvertently or otherwise improperly released. In addition, recently passed federal statutes and OMB related guidance require the reporting of possible unauthorized releases of Personally Identifiable Information (PII) such as addresses, social security numbers, telephone numbers, etc. However, ISTSD nor OM could provide records to show that they had properly disposed of some IT equipment that possibly contained PII. Further, the agency's Chief Privacy Officer (CPO) did not report to Congress the possible violations that OIG had brought to his attention.

Under Finance Board policies and procedures dated August 25, 2005, ISTSD officials are responsible for identifying excess computer equipment that is available for donation and for removing all data from any hard drive or other IT storage devices prior to donating equipment. According to the CIO, agency contractors perform the BCWipe procedures under the supervision of ISTSD government employees/COTRs. In addition, the procedures assign OM officials responsibility for identifying eligible recipients for the excess computer equipment. The policies and procedures further require that a record of all computer equipment donated to eligible entities be maintained as part of the property management files managed by OM.

Under Section 522(a) of the Consolidated Appropriations Act, 2005,<sup>3</sup> on an annual basis, the agency's CPO must prepare a report to Congress on Finance Board activities that affect

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<sup>2</sup> NIST's Federal Information Processing Standards Publication (FIPS PUB) 200, dated March 2006, titled "Minimum Security Requirements for Federal Information and Information Systems", Section 3 Minimum Security Requirements, provides the following requirements for media protection.

**Media Protection (MP):** Organizations must: (i) protect information system media, both paper and digital; (ii) limit access to information on information system media to authorized users; and (iii) sanitize or destroy information system media before disposal or release for reuse.

<sup>3</sup> SEC. 522. (a) PRIVACY OFFICER- Each agency shall have a Chief Privacy Officer to assume primary responsibility for privacy and data protection policy, including--  
(1) assuring that the use of technologies sustain, and do not erode, privacy protections relating to the use, collection, and disclosure of information in an identifiable form;  
(2) assuring that technologies used to collect, use, store, and disclose information in identifiable form allow for continuous auditing of compliance with stated privacy policies and practices governing the collection, use and distribution of information in the operation of the program;  
(3) assuring that personal information contained in Privacy Act systems of records is handled in full compliance with fair information practices as defined in the Privacy Act of 1974;

privacy, including complaints of privacy violations, implementation of section 522a of title 5, (the Privacy Act), internal controls, and other relevant matters. The CPO is also charged with ensuring that the Finance Board protects information in an identifiable form and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction. Consequently, the CPO should ensure that IT equipment with data storage devices, such as hard drives, are properly wiped prior to being reassigned or disposed of in order to prevent disclosure of PII and confidential information.

We identified 50 pieces of lost or stolen IT equipment that are of a type that contain data storage devices but were not locatable through the physical inventory count, the inventory listing, or via the inventory disposition records, because the records were not complete. These items include desktops, laptops, PDAs, and servers that contain data storage devices that may contain Personally Identifiable Information (PII), (see Table 1, Schedule of Lost or Stolen IT Inventory Items). While the loss or theft of these items may have occurred before enactment of the Consolidated Appropriations Act, 2005, the CPO was first alerted to the loss or theft by OIG after the enactment of the Act. As a result, the CPO should have included this matter in his report to Congress in October 2006 and October 2007. As of the date of this report, neither the Acting Director of OM, the CPO, nor the CIO could confirm if these IT items ever existed because of the poor agency records. The Acting Director of OM stated that he can only attest to the items in the inventory listing from November 2005 to present, but he cannot attest to the items in the April 30, 2003 *FHFB Inventory Items* report. However, these officials cannot assure us that these items did not exist. As a result, the potential exists for unauthorized access to PII, and the incident was not reported to the Congress as required by the Consolidated Appropriations Act of 2005.

## **Recommendations**

We recommend that the CPO : 1) maintain accurate and complete records documenting that IT equipment with data storage devices, such as hard drives, are properly wiped prior to being reassigned or disposed of in order to prevent unauthorized disclosure of PII and

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*(4) evaluating legislative and regulatory proposals involving collection, use, and disclosure of personal information by the Federal Government;*

*(5) conducting a privacy impact assessment of proposed rules of the Department on the privacy of information in an identifiable form, including the type of personally identifiable information collected and the number of people affected;*

*(6) preparing a report to Congress on an annual basis on activities of the Department that affect privacy, including complaints of privacy violations, implementation of section 552a of title 5, 11 United States Code, internal controls, and other relevant matters;*

*(7) ensuring that the Department protects information in an identifiable form and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction;*

*(8) training and educating employees on privacy and data protection policies to promote awareness of and compliance with established privacy and data protection policies; and*

*(9) ensuring compliance with the Departments established privacy and data protection policies.*

*NOTE: This statute, appearing in division H of the aforementioned Act, was amended in 2007, but the amendment did not change any of the provisions of the subsection (a) set forth above.*

confidential information, and 2) report the possible loss of equipment that could contain PII in accordance with OMB memorandum M-06-19, dated July 12, 2006, and OMB memorandum M-07-19, dated July 25, 2007 titled "FY 2007 Reporting Instructions for the Federal Information Security Management Act, and Agency Privacy Management."

**Auditees' Responses:**

The Acting Director of OM agreed with recommendation 1). However, the Acting Director of OM and the Associate General Counsel, disagreed that IT items that OIG identified during the audit as possibly lost or stolen should be reported. They advised that reporting is not required because the possible loss or theft of the items occurred in Fiscal Year 2003 - prior to the enactment of the Consolidated Appropriations Act of 2005 and the Act's reporting requirements are not retroactive.

We have reviewed this matter with our Counsel and disagree with OM and OGC's position. OIG identified the possible lost or stolen items after the Act was enacted. The Act and related OMB guidance clearly require reporting of such incidences once they are identified. Consequently, the agency had a responsibility to report after being notified by OIG even though the possible loss or theft occurred in Fiscal Year 2003.

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April 9, 2008

TO: Edward Kelley  
Inspector General

FROM: David B. Lee  
Director, Office of Management (OM)

Thomas Leach  
Chief Information Officer (CIO) *TL*

SUBJECT: Response to Final Draft Audit Report on the Audit of FHFB's Disposition of Information Technology (IT) Equipment

We appreciate the opportunity to respond to the final draft audit report, which covers the period from April 2003 to March 2007 and was initiated three years ago. The report states that we did not express any disagreement with several findings at the audit exit conference. Because of the numerous deficiencies in the report we chose not to respond during the exit conference. Our silence did not nor does not mean acquiescence with any of the findings in the report. On the contrary, as set forth below, we have significant disagreement with the findings in the report.

Our response is divided into two sections; the first addresses these disagreements and the second responds to the recommendations that are the responsibilities of the OM Director and CIO, specifically recommendations A and D.

First we will identify the significant disagreements:

- Significant Disagreement #1: OM did not adequately dispose of IT equipment during the period we reviewed, April 30, 2003 through March 12, 2007. (Reference-Pages 1 and 6)
  - The draft report does not reference the OIG's audit of the Finance Board's financial statements for fiscal years 2003, 2004, 2005, 2006 or 2007. As you know, in the FY2003 audit, there were issues identified with the Finance Board's inventory. We agreed and addressed those issues and in the FY2004 audit, the independent auditors performed a follow-up review of the inventory issues and

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stated that the issues had been resolved. Furthermore, in the 2005, 2006 and 2007 financial statements audits, there were no management letter issues identified that relate to any deficiencies in the inventory.

- On page 11 of the draft report, the OIG states, "Since the physical inventory count was completed on October 21, 2004, OM and the CIO have maintained an inventory listing that, based on our testing, appears to properly document the status of IT inventory items." This statement is in direct contradiction to the OIG stated conclusion that the OM did not adequately dispose of IT equipment during the period of April 30, 2003 through March 12, 2007. The introduction, executive summary and the above referenced pages should be updated to reflect the results of your OIG test and the fact that the inventory listing is properly documented.
- On Page 8 of the draft report, the OIG states, "Since November 2005, the Finance Board has implemented a new inventory management system-the MAGIC system. Based on our limited review of the new system, the agency does appear to have an inventory system that accurately documents inventory items owned or leased by the Finance Board." Again, as noted in your report the agency has an inventory system that accurately documents inventory items and this information should be updated in the above referenced pages.
- ❖ As a result, OM has properly and adequately disposed of IT equipment since October 2004.
- Significant Disagreement #2: "...of the 478 IT equipment items sampled, 27 percent, with an estimated value of \$17,000 were lost or stolen..." (Reference-Pages 1, 3, 6, 7, 8 10)
  - We strongly disagree with the statement that 27 percent of the items were lost or stolen. This is a very serious allegation for which you have provided no evidence to support this allegation. Please note that the items you identify as being lost or stolen included personal computers (desktops and laptops), monitors, printers, servers, scanners, docking stations and personal data assistants. At no time during 2003 or 2004, or for that matter from 2003 to 2007, has any employee or contractor reported that any IT equipment identified in your report was either lost or stolen. Had we thought any equipment was lost or stolen, or had an employee reported it to us, we would have, as OM has done in the past, reported the information promptly to the OIG.

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- Significant Disagreement #3: “Further, 50 items or 39 percent of these unaccounted for IT items potentially contained Personally Identifiable Information (PII)...OM officials never reported the fact these missing IT items to the Congress as required by the Consolidated Appropriations Act of 2005 or to the Office of Inspector General...” (Reference-Pages 1, 2, 3, 5, 6, 7, 16)
  - OM disagrees with the recommendation regarding the obligation to report to Congress regarding IT equipment that conceivably could contain PII, to the extent that the inability to identify such equipment occurred prior to the enactment on December 8, 2004, of the reporting requirements in Pub. L. 108-447, div. H, title V, § 522, Dec. 8, 2004, 118 Stat. 3268 (Section 522). Section 522 requires an agency to designate a chief privacy officer, and outlines the duties of that officer once appointed. Among other things, a chief privacy officer must report annually to Congress on matters that affect privacy. Section 522 also required an agency to establish policies and procedures for protection of information and report on uses of information and these policies and procedures within one year of enactment. Nothing in the statutory language suggests that these requirements were meant to apply retroactively. Indeed, by their nature, they could not so apply. Further, as a matter of statutory construction, “statutes are applied prospectively unless specific contrary intent appears.” See 2 N. Singer, SUTHERLAND STATUTES AND STATUTORY CONSTRUCTION § 41:2 (6th ed. 2001) (“Retrospective operation is not favored. . . and a law will not be construed as retroactive unless the act clearly, by express language or necessary implication, indicates that the legislature intended a retroactive application.” *Id.* at § 41:4).
  - ❖ Therefore, we disagree that the IT items identified in 2005 should be reported to Congress.

Second, the Director of OM and the CIO will address recommendations A and D:

#### Recommendation A

The OIG recommends that the Director of OM and the CIO coordinate to ensure that:

- 1) Each IT inventory item purchased or leased by the Finance Board is added to the existing inventory listing within a business day after receipt and that all required data fields on the list are properly completed

Agency Response: We agree to coordinate our efforts to ensure that each IT inventory item purchased or leased will be timely added to the existing inventory listing and that all required data fields on the list are properly completed.

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- 2) Reports are prepared for all inventory items at the time they are sold, donated, or scrapped and the reports contain: a) adequate information to link the items to the inventory listing, and b) certification of accuracy statements that are signed by the preparer and recipient.

Agency Response: At present, reports are prepared for all inventory items (with signatures of relevant individuals) at the time they are sold, donated, or scrapped. We agree to continue this practice.

- 3) Reconciliation reports are consistently completed within one business day after each physical inventory count. Any missing items identified are investigated by OM or ISTD, and a copy of the reconciliation report is provided to the Inspector General.

Agency Response: The Finance Board agrees that reconciliation reports will be prepared in a timely fashion after physical inventory counts. Also, any missing items identified will be investigated by OM and/or ISTD and a copy of the reconciliation report will be provided to the Inspector General.

- 4) Property management policies and procedures are revised to strengthen controls.

Agency Response: The Finance Board will review and update the Property Management Policy prior to the end of FY08.

**Recommendation D**

The OIG recommends that the Chief Privacy Officer should:

- 1) Maintain accurate and complete records documenting that IT equipment with data storage devices, such as hard drives, are properly wiped prior to being reassigned or disposed of in order to prevent unauthorized disclosure of PII and confidential information.

Agency Response: The Finance Board agrees to maintain accurate and complete records documenting that IT equipment with data storage devices, such as hard drives, are properly wiped prior to being reassigned or disposed of in order to prevent unauthorized disclosure of PII and confidential information.

- 2) Report the possible loss of equipment that could contain PII in accordance with OMB memorandum M-06-19 dated July 12, 2006, and OMB memorandum M-07-19, dated July 25, 2007 titled "FY2007 Reporting Instructions for the Federal Information Security Management Act, and Agency Privacy Management."

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Agency Response: The Finance Board agrees to report any loss of equipment that could contain PII in accordance with the above referenced memoranda except as noted above as it pertains to items that were disposed of in 2003.

cc: Daris Meeks