



Audit Report



OIG-13-009

Management Letter for the Audit of the Federal Financing Bank's
Fiscal Years 2012 and 2011 Financial Statements

November 13, 2012

Office of
Inspector General

DEPARTMENT OF THE TREASURY



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 13, 2012

**MEMORANDUM FOR GARY BURNER, CHIEF FINANCIAL OFFICER
FEDERAL FINANCING BANK**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the Federal Financing
Bank's Fiscal Years 2012 and 2011 Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Federal Financing Bank's (FFB) Fiscal Years 2012 and 2011 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of FFB as of September 30, 2012 and 2011, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses a matter involving internal control over financial reporting and its operation that was identified during the audit but was not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 9, 2012

Inspector General, U.S. Department of the Treasury, and
the Board of Directors, Federal Financing Bank:

In planning and performing our audit of the Federal Financing Bank's (the Bank) financial statements as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered the Bank's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

During our audit, we noted a certain matter involving internal control that is presented for your consideration. This comment and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control and are summarized in Exhibit I. We also provided in Exhibit II the status of the comment included in our letter arising from the fiscal year 2011 audit.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Bank gained during our work to make comments and suggestions that we hope will be useful to you.

This communication is intended solely for the information and use of the Bank's management, the U.S. Department of the Treasury's Office of Inspector General, the U.S. Government Accountability Office, the Office of Management and Budget, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

**Federal Financing Bank
Current Year Comment and Recommendation
September 30, 2012**

Change Management Procedures

In fiscal year 2012, we noted discrepancies in cash receipt amounts included in the cash receipt report (generated July 2012). It should be noted the original version of the cash receipts generated after the respective month end were unaffected because the differences were the result of two system change requests in the month of June. The changes only affected the cash receipts report generated July 9, 2012.

In examining the reasons leading to the differences noted in the condition, we determined that while FFB management tests and approves change requests prior to implementing system changes, their change management procedures are not comprehensive enough to ensure proper testing occurs prior to and subsequent to development and production. Due to the lack of regression testing, management was unable to detect the effect of the system change in production. Additionally, an FFB IT staff member was not assigned to review in detail the change requests of development or production projects, created by the contracting firm, prior to the accountants performing their tests and approval of the changes.

Office of Management and Budget (OMB) Circular A-123 states, Management Accountability and Control, prescribes the expectation of management and the responsibility of managers for the quality and timeliness of program performance. Specifically, the Circular states that “reliable and timely information is obtained, maintained, reported and used for decision making.”

OMB Circular A-127 states that Agency financial management systems shall comply with the following requirements: i. Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the Federal Financial Management Systems Requirements documents published by Joint Financial Management Improvement Program (JFMIP) or (b) other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up- to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as requirements documents, systems specifications and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.

Without a proper change control process over the application program regarding the flow of changes from development to production, potentially inaccurate program changes may be implemented into the production environment. Furthermore, if program development and modification activities are not monitored (by FFB IT staff) relative to an established system development methodology, development of and modifications to programs may not be properly evaluated in connection with the posting logic of Loan Management Control System (LMCS), meet established design specifications, be properly reviewed and tested prior to introduction into the production environment.

**Federal Financing Bank
Current Year Comment and Recommendation
September 30, 2012**

Recommendations

We recommend that management strengthen change control procedures for LMCS and related report modifications to conform to existing standards. Specifically, management should:

- 1) Implement policies and procedures to provide adequate supervision, by FFB IT staff, when a contractor develops requirements, testing, acceptance, and subsequent implementation initiatives prior to moving into production.
- 2) Strengthen change request form to include: all requirements for the change, scope of change request including time period of change, life cycle of implementation and end user testing to ensure all change requests are properly tested.
- 3) Ensure that the level and sufficiency of testing are appropriate for specific change requirements; that change requests are appropriately evaluated, authorized, and monitored to ensure they achieve the users' requirements and do not negatively impact existing processing.

Management's Response

Management concurs with the finding and recommendations.

**Federal Financing Bank
Status of Prior Year Recommendations
September 30, 2012**

| Prior Year Comment | Current Year Status |
|---|---|
| 1. Fair Value of the Federal Credit Reform Act Borrowings | During FY 2012, we noted several instances where the Fair Value disclosure over borrowings was incorrectly calculated resulting in an understatement of \$152 million. As a result, we reported this finding as significant deficiency in the Independent Auditors' Internal Control Report over Financial Reporting. |