



Audit Report



OIG-19-012

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Federal Financing Bank's Financial Statements for Fiscal Years 2018 and 2017

November 9, 2018

Office of Inspector General
Department of the Treasury

This Page Intentionally Left Blank



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 9, 2018

**MEMORANDUM FOR CHRISTOPHER L. TUTTLE
ACTING CHIEF FINANCIAL OFFICER
FEDERAL FINANCING BANK**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Federal Financing
Bank's Financial Statements for Fiscal Years 2018 and 2017

I am pleased to transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Federal Financing Bank as of September 30, 2018 and 2017, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG LLP issued the attached management letter dated November 9, 2018, that discusses a matter involving a deficiency in internal control over financial reporting that was identified during the audit. This matter relates to erroneous disclosure of cash related activities in the supplemental disclosure of non-cash investing and financial activities on the Statement of Cash Flows.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this letter.

Should you have any questions, please contact me at (202) 927-0009, or Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment



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

November 9, 2018

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

In planning and performing our audit of the financial statements of the Federal Financing Bank (the Bank) as of and for the years ended September 30, 2018 and September 30, 2017, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, we considered the Bank's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we issued a combined report dated November 9, 2018 that included our consideration of the Bank's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit, we identified a matter involving a deficiency in internal control.

The Bank's response to the findings identified in our audit is described in Appendix A. The Bank's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

See Appendix A for the deficiency identified, and management's response. See Appendix B for status of prior year findings.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Federal Financing Bank (FFB) Review of Statement of Cash Flows

Based on our review of the statement of cash flows, we noted that FFB erroneously disclosed cash related activities in the supplemental disclosure of noncash investing and financing activities. Upon our observations, FFB corrected its statement of cash flows accordingly.

We applied the following criteria:

- FASB's Accounting Standards Codification (ASC) Topic 230-10-50-3, *Noncash Investing and Financing Activities*: Information about all investing and financing activities of an entity during a period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period shall be disclosed. Those disclosures may be either narrative or summarized in a schedule, and they shall clearly relate the cash and noncash aspects of transactions involving similar items.
- Government Accountability Office (GAO) GAO-14-704G Federal Internal Control Standards (the Green Book), Principle 16 – *Perform Monitoring Activities* states that: 16.01 Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

We determined FFB did not have effective monitoring controls over the review of the statement of cash flows.

Without monitoring controls operating effectively, FFB is exposed to an increased risk that required disclosures and misstatements are neither prevented nor detected in the financial statements in a timely manner.

We recommend that FFB strengthen their procedures over the review of the financial statements, especially the statement of cash flows, to ensure that statements are prepared in accordance with all applicable accounting standards.

Management's Response

Management concurs with the finding and recommendations. FFB will implement corrective actions to address this deficiency.

Appendix B

Fiscal Year 2017 Management Letter Comments	Fiscal Year 2018 Status
General IT Controls	
FFB's Loan Management and Control System (LMCS) Backups Were Not Rotated to an Offsite Location	Closed

This Page Intentionally Left Blank



REPORT WASTE, FRAUD, AND ABUSE

Treasury OIG Hotline: 1-800-359-3898

Hotline@oig.treas.gov

Gulf Coast Restoration Hotline: 1-855-584.GULF (4853)

gulfcoastrestorationhotline@oig.treas.gov

Access Treasury OIG reports and other information online:

www.treasury.gov/about/organizational-structure/ig