



Audit Report



OIG-09-011

Management Letter for Fiscal Year 2008 Audit of the
Federal Financing Bank's Financial Statements

November 21, 2008

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 21, 2008

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

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2008 Audit of the
Federal Financing Bank's Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Federal Financing Bank's (FFB) Fiscal Year 2008 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, 2008, and for the year 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*; 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 other matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the audit 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.

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Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Donna Joseph, Manager, Financial Audits, at (202) 927-5784.

Attachment

cc: Kenneth Carfine
Vice President, FFB

Meredith Broome
Vice President and Treasurer, FFB



KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 10, 2008

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

We have audited the financial statements of the Federal Financing Bank (the Bank) for the year ended September 30, 2008, and have issued our report thereon dated November 10, 2008. In planning and performing our audit of the financial statements of the Bank, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control and other operational matters that we present for your consideration. These comments and recommendations are summarized in Exhibit I. They have been discussed with the appropriate members of management, and are intended to improve internal control or result in other operating efficiencies.

We also provide in Exhibit II the status of the comments and recommendations included in our letter arising from the fiscal year 2007 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 deficiencies 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 report 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
Comments and Recommendations**

September 30, 2008

1. System Development Methodology and Configuration Management Plan

The Bank has not developed and documented a formal system development life cycle (SDLC) methodology or configuration management plan in accordance with the National Institute of Standards and Technology (NIST) Special Publication (SP) SP 800-64, *Security Considerations in the Information System Development Life Cycle*.

Recommendation

We recommend that the Bank continue its efforts in developing and documenting a system development methodology and a configuration management plan. The system development methodology should describe programming naming conventions, the system development phases and what is to be performed in each, procedures for handling emergency programming changes, application test procedures, development, test and production access control lists, etc., as documented in NIST SP 800-64.

Management's Response

Management concurs with the finding and recommendation. Management indicated that a process is currently under way to document a system development methodology as part of the overall information technology system restructuring. The process should be completed in fiscal year 2009.

We did not audit management's response, and, accordingly, we express no opinion on it.

2. Outdated LMCS Oracle Database Management System

Oracle® ended support of the Loan Management and Control System (LMCS) Oracle Database Management System in fiscal year 2006; however, the Bank has not upgraded the Oracle Database Management System that supports LMCS to a current supported version.

Recommendation

We recommend that the Bank continue with plans to upgrade the LMCS Oracle database management system to a current version of Oracle.

Management's Response

Management concurs with the finding and recommendation. Management indicated that an upgrade to Oracle 9 is planned for fiscal year 2009.

We did not audit management's response, and, accordingly, we express no opinion on it.

**Federal Financing Bank
Comments and Recommendations**

September 30, 2008

3. Password Requirements

The Bank did not set the LMCS minimum password length to meet the requirement of eight (8) characters outlined in the LMCS System Security Plan (SSP).

Recommendations

We recommend that the Bank configure LMCS to require users to use at least eight-character passwords, in accordance with the LMCS SSP.

Management's Response

Management concurs with this finding and has revised password parameters to meet the 8-character requirement in the LMCS SSP in October 2008.

We did not audit management's response, and, accordingly, we express no opinion on it.

**Federal Financing Bank
Status of Prior Year Recommendations**

September 30, 2008

Prior Year Recommendations	Current Year Status
1. System Security Plan	This comment has been corrected.
2. System Development Methodology and Configuration Management Plan	This comment has not been corrected and is repeated as comment 1 in the current year Management Letter.
3. Outdated LMCS Oracle Database Management System	This comment has not been corrected and is repeated as comment 2 in the current year Management Letter.
4. Password Requirements	This comment has been partially corrected. We have repeated the portion of the finding that has not been corrected as comment 3 in the current year Management Letter.
5. LMCS Change Control Procedures	This comment has been corrected.