



441 G St. N.W.  
Washington, DC 20548

## Accessible Version

April 19, 2023

The Honorable Sandra L. Thompson  
Director, Federal Housing Finance Agency

## Management Report: Federal Housing Finance Agency Should Improve Controls over Personnel and Payroll Information

Dear Director Thompson:

On November 15, 2022, we issued our auditor's report on the results of our audit of the fiscal years 2022 and 2021 financial statements of the Federal Housing Finance Agency (FHFA).<sup>1</sup> As we reported in connection with our audit, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022. However, we identified other deficiencies in FHFA's internal controls that we do not consider to be material weaknesses or significant deficiencies.<sup>2</sup> These deficiencies warrant FHFA management's attention. This report presents the control deficiencies we identified and our recommendations related to these deficiencies. There were no prior recommendations outstanding for FHFA related to past financial statement audits. This report is intended for FHFA management's use.

### Objective, Scope, and Methodology

As part of our audit of FHFA's fiscal years 2022 and 2021 financial statements, we evaluated FHFA's internal control over financial reporting. To accomplish this objective, we reviewed FHFA policies and procedures; interviewed FHFA management and staff; observed controls in operation; and conducted tests of controls to determine whether controls were designed, implemented, and operating effectively. A full discussion of our scope and methodology is included in our auditor's reports of FHFA's fiscal years 2022 and 2021 financial statements.<sup>3</sup> During the course of our work, we communicated our findings to FHFA management. We plan to follow up with FHFA to determine the status of corrective actions taken to address our recommendations as part of our audit of FHFA's fiscal year 2023 financial statements.

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<sup>1</sup>GAO, *Financial Audit: Federal Housing Finance Agency's FY 2022 and 2021 Financial Statements*, [GAO-23-105910](#) (Washington, D.C.: Nov. 15, 2022).

<sup>2</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A control deficiency 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.

<sup>3</sup>[GAO-23-105910](#).

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for our findings and recommendations in this report.

## **Deficiencies in Controls over the Processing of Personnel and Payroll Information**

During our audit of FHFA's fiscal years 2022 and 2021 financial statements, we identified deficiencies in FHFA's internal control over the processing of personnel and payroll information. While we did not consider these deficiencies to be material weaknesses or significant deficiencies, either individually or collectively, they nonetheless warrant FHFA management's attention. Specifically, we found that FHFA did not reasonably assure that (1) it accurately recorded employee benefits information, (2) gross cost information in its financial statements was supported by detailed employee time charges, and (3) cash awards paid to employees and recorded in its financial statements matched the amounts management authorized.

We are making four recommendations pertaining to these identified control deficiencies.

### **Inaccurate Employee Benefits Information**

When FHFA hires new employees, its Human Resources (HR) Department performs procedures to record employee information into the Federal Personnel Payroll System (FPPS).<sup>4</sup> If a new employee has prior federal service, HR must obtain information from the employee's prior federal employer, including forms documenting the employee's benefit elections.<sup>5</sup> Once FHFA obtains this information, HR is responsible for verifying that all benefit election forms are complete and consistent with the employee elections it recorded in FPPS.

**Condition.** During our audit, we found that FHFA's FPPS employee records contained inaccurate information for employees who had prior federal service. Specifically, we identified the following errors:

- We found one instance where FHFA enrolled an employee in the wrong retirement plan. Because the employee had prior federal service, the employee was eligible for the federal retirement plan that was in effect at the employee's start date with the federal government. However, FHFA enrolled the employee into the retirement plan that was in effect when the employee started working at FHFA in 2014. As a result of FHFA's error, the agency did not contribute enough to the employee's retirement plan. This, in turn, led to FHFA understating its retirement contributions for the employee and its payroll expenses in the financial statements.
- We found one instance where FHFA did not verify that it enrolled an employee into the life insurance plan that the employee elected. When this employee started working at FHFA in 2021, FHFA was not able to timely obtain the employee's most recent Standard Form (SF)

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<sup>4</sup>FHFA initiates personnel and payroll documents in the Workforce Transformation Tracking System and then records the information in FPPS, both of which are part of the Department of the Interior's Business Center's Human Resources Information System.

<sup>5</sup>Benefit elections include the Thrift Savings Plan, Federal Employees' Health Benefits, Federal Employees' Group Life Insurance, Federal Employees' Dental and Vision Insurance Program, and Federal Long Term Care Insurance Program.

2817.<sup>6</sup> Consequently, FHFA enrolled the employee into the life insurance plan that the employee's prior federal employer recorded. When FHFA subsequently obtained the employee's SF 2817, HR did not verify that the employee's life insurance election documented on the SF 2817 matched the life insurance plan election it recorded. The plan FHFA recorded for the employee would pay designated beneficiaries the employee's annual salary in the event of the employee's death. However, the SF 2817 indicated the employee had selected a plan that would pay beneficiaries five times the employee's annual salary in the event of the employee's death.

**Criteria.** FHFA's HR policies and procedures require HR personnel to perform quality assurance checks before new employee personnel information is recorded and processed in its information systems. Additionally, FHFA's accounting policy states that the information supporting its financial reporting must be accurate. *Standards for Internal Control in the Federal Government* also states that management should (1) design control activities to achieve objectives and respond to risks, including designing appropriate types of control activities for the entity's control system, such as accurate and timely recording of transactions; (2) implement control activities by documenting responsibilities through policies and periodically reviewing control activities; and (3) establish and operate monitoring activities to monitor the internal control system and evaluate the results.<sup>7</sup>

**Cause.** While FHFA designed and implemented control activities to prevent errors when recording benefits information in its personnel records, FHFA personnel did not properly execute the internal control activities. These existing control activities failed to prevent or detect the errors that occurred, and management was not aware that the controls were not operating effectively.

**Effect.** Without management action to (1) identify and correct existing errors in personnel records and (2) reasonably assure that its internal controls over recording new employees' benefit information are operating as intended, FHFA increases the risk that its financial reporting will be inaccurate. In addition, FHFA increases the risk that employees who are affected by such errors will continue to suffer undue burden as a result.

**Recommendations for Executive Action.** The Director of FHFA should ensure that the appropriate management officials undertake a detailed review of existing personnel records to identify and correct errors. (Recommendation 1)

The Director of FHFA should ensure that the appropriate management officials develop and implement a process to monitor controls over the recording of benefits information for employees with prior federal service to reasonably assure that these controls are operating as designed. (Recommendation 2)

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<sup>6</sup>This form's full title is U.S. Office of Personnel Management Standard Form 2817 – Life Insurance Election. Employees use the SF 2817 to make their life insurance elections.

<sup>7</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

## Reported Cost by Strategic Goal Not Supported by Detailed Employee Time Charges

FHFA reports its gross program cost by strategic goal on its Consolidated Statement of Net Cost (SNC) and in note 10 of its financial statements.<sup>8</sup> The Department of the Treasury's Fiscal Service Administrative Resource Center (Fiscal Service ARC) provides accounting services for FHFA and generates FHFA's reported gross cost amounts from its Oracle system. FHFA's Budget and Accounting Office performs quarterly and year-end reviews of gross cost by strategic goal information on the SNC and works with Fiscal Service ARC to resolve any issues.

To prepare the gross cost information for financial reporting, Fiscal Service ARC uses summarized payroll information from the Department of the Interior's Business Center (IBC). IBC provides payroll processing services for FHFA and uses FPPS to process and transmit summarized payroll information. IBC uses information from WebTA in processing FHFA's payroll transactions.<sup>9</sup> FHFA employees use WebTA to record their biweekly time charges and associated strategic goal selection, and supervisors review and approve the time charges and associated strategic goal selections in this system. Once the supervisor certifies an employee's time charges in WebTA, FHFA transmits the information to IBC.

**Condition.** We found one instance where strategic goal hours in Fiscal Service ARC's Oracle system did not match the employee's time and attendance record in WebTA.

**Criteria.** FHFA's accounting policy states that the information supporting its financial reporting must be accurate. Additionally, *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks, including designing appropriate types of control activities for the entity's control system, such as accurate and timely recording of transactions. Further, the standards state that management should implement control activities by documenting responsibilities through policies and periodically reviewing control activities.<sup>10</sup>

**Cause.** FHFA did not have adequate controls in place to reasonably assure that the gross cost information on its financial statements matched detailed employee time charges. While FHFA designed control activities to reasonably assure that the gross cost information on its financial statements reconciled to summarized payroll information, FHFA's review did not detect this error. Specifically, when FHFA's Budget and Accounting Office performed reviews of gross cost information, its existing process was not designed to verify that gross cost amounts by strategic goal trace back to detailed employee time charges as submitted in WebTA. In this instance, FHFA transmitted revised time charges through WebTA for the specific employee to IBC's FPPS. However, IBC's FPPS computer programs failed to recognize the updated time charges when compiling the summarized payroll information transmitted to Fiscal Service ARC.

**Effect.** Without management action to develop control activities to reasonably assure that the gross cost information in FHFA's financial statements matches detailed employee time charges, FHFA increases the risk that its financial reporting will be inaccurate.

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<sup>8</sup>FHFA breaks out its costs on its SNC by its three strategic goals: (1) Safety and Soundness; (2) Liquid, Efficient and Resilient Markets; and (3) Strengthen the Workforce and Infrastructure.

<sup>9</sup>WebTA is an automated time and attendance system to record and track time and leave data.

<sup>10</sup>[GAO-14-704G](#).

**Recommendation for Executive Action.** The Director of FHFA should ensure that the appropriate management officials develop a process to periodically verify that gross cost information in FHFA's financial statements is supported by detailed employee time charges. (Recommendation 3)

### **Award Amount Paid to Employee Not Authorized by Management**

FHFA has various cash awards for recognizing employee performance. It also has a process to include additional amounts for certain awards, so that an employee receives the specified award amount after taxes and other deductions are taken as part of FHFA's normal payroll processing procedures. However, not all awards are authorized to include those additional amounts. HR initiates and processes cash awards in FPPS. FHFA policies include various levels of review and authorization of such awards.

**Condition.** We found one instance where FHFA paid a cash award to an employee that was above what management authorized. Specifically, management intended to award an employee \$1,000 before taxes and other deductions. Instead FHFA paid the employee \$1,430, as if the award was approved for \$1,000 after taxes and other deductions.

**Criteria.** FHFA policies require its Human Capital Manager to review and approve in FPPS all personnel actions documented on an SF 52.<sup>11</sup> Additionally, *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks, including designing appropriate types of control activities for the entity's control system, such as accurate and timely recording of transactions. Further, the standards state that management should implement control activities by documenting responsibilities through policies and periodically reviewing control activities.<sup>12</sup>

**Cause.** While FHFA has control activities in place to reasonably assure employee award amounts are granted and authorized in accordance with its policies, it did not have a control procedure in place to reasonably assure that the award information an HR specialist enters into FPPS for final payment matches what management authorized and approved on the SF 52.

**Effect.** Without management action to implement a control procedure to reasonably assure the accuracy of cash award information recorded for final payment, FHFA increases the risk that recorded transactions are not authorized in accordance with management policy.

**Recommendation for Executive Action.** The Director of FHFA should ensure that appropriate management officials develop a process to reasonably assure that recorded cash award payments match what management authorized as documented on the approved SF 52. (Recommendation 4)

### **Agency Comments**

We provided a draft of this report to FHFA for comment. In its comments, reproduced in the enclosure, FHFA stated that it agreed with the four recommendations in this report and described actions it has taken, or plans to take, to address the recommendations related to

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<sup>11</sup>This form's full title is U.S. Office of Personnel Management Standard Form 52 – Request for Personnel Action. The SF 52 is used to request personnel action for various employment and benefits purposes.

<sup>12</sup>[GAO-14-704G](#).

controls over the processing of personnel and payroll information. We will evaluate the effectiveness of FHFA's efforts during our audit of its fiscal year 2023 financial statements.

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We are sending copies of this report to the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Chairperson of the Securities and Exchange Commission, the Director of the Office of Management and Budget, appropriate congressional committees, and other interested parties. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance FHFA officials and staff provided during our audit of FHFA's fiscal year 2022 and 2021 financial statements. If you or your staff have any questions about this report, please contact me at (202) 512-7795 or [sitwilliamsa@gao.gov](mailto:sitwilliamsa@gao.gov). GAO staff members who made key contributions to this report include Ted Hu (Assistant Director), Matt Frideres, and Anne Thomas.

Sincerely yours,

A handwritten signature in black ink that reads "Anne Sit-Williams". The signature is written in a cursive, flowing style.

Anne Sit-Williams  
Director, Financial Management and Assurance

Enclosure – 1

# Enclosure I: Comments from the Federal Housing Finance Agency



## Federal Housing Finance Agency

Constitution Center  
400 7<sup>th</sup> Street, S.W.  
Washington, D.C. 20219  
Telephone: (202) 649-3800  
Facsimile: (202) 649-1071  
[www.fhfa.gov](http://www.fhfa.gov)

March 29, 2023

Ms. Anne Sit-Williams  
Director, Financial Management and Assurance  
U. S. Government Accountability Office  
441 G Street, NW  
Washington, D.C. 20548

Dear Ms. Sit-Williams:

Thank you for the opportunity to review and respond to the U.S. Government Accountability Office (GAO) report, *Opportunities to Improve FHFA's Controls over the Processing of Personnel and Payroll Information*, (Report). We appreciate GAO's work during the fiscal year (FY) 2022 financial statements audit. I am pleased GAO found that the Federal Housing Finance Agency's (FHFA) FY 2022 financial statements were fairly presented in all material respects and that FHFA had effective internal control over financial reporting.

FHFA agrees that GAO's recommendations outlined in the Report will strengthen our internal controls. To that end, FHFA has taken steps to comply with all of GAO's recommendations contained in the Management Report as discussed below.

**Recommendation 1:** *The Director of FHFA should ensure that the appropriate management officials undertake a detailed review of existing personnel records to identify and correct errors.*

**Management Response:** FHFA agrees with the recommendation. The Office of Human Resources Management (OHRM) is committed to ensuring that all FHFA personnel records are thoroughly reviewed for accuracy and that any identified errors are promptly corrected. To achieve this, OHRM has solicited contract assistance to independently conduct a comprehensive review of all FHFA Electronic Official Personnel Folders (eOPF).

This review includes ensuring accuracy and completeness for all facets of personnel and payroll actions and supporting documentation. As items are identified, OHRM will be responsible for making the needed corrections. The contract is expected to be awarded in April 2023, and once

the contractor is on-board, a project schedule will be completed.

**Recommendation 2:** *The Director of FHFA should ensure that the appropriate management officials develop and implement a process to monitor control over the recording of benefits information for employees with prior federal service to reasonably assure that these controls are operating as designed.*

**Management Response:** FHFA agrees with the recommendation. OHRM's current control is to obtain receipt of the SF-75 data for transferring employees and verify benefits information via email. OHRM has updated its Benefits Processing Standard Operating Procedure (SOP) to include a new process that within 30 days of receipt of the employee's eOPF, the Senior Benefits Specialist reviews the eOPF and the benefit elections to verify the information is accurate. Benefits management will conduct a periodic review of this new process to ensure compliance. This additional control will ensure that the information in the employee's eOPF is accurately reflected in FHFA's payroll system.

**Recommendation 3:** *The Director of FHFA should ensure that the appropriate management officials develop a process to periodically verify that gross cost information in FHFA's financial statement is supported by detailed employee time charges.*

**Management Response:** FHFA agrees with the recommendation. OHRM worked with Interior Business Center (IBC) to identify the system error that impacted FHFA and other IBC customers. Subsequently, IBC implemented a system correction to address this issue. OHRM worked to correct the employees impacted by the inaccurate gross cost information. OHRM will work with the Office of Budget and Financial Management (OBFM) to update the OBFM Payroll Oversight Procedure to include periodic verification of detailed employee time charges. The update is anticipated to be complete by June 2023.

**Recommendation 4:** *The Director of FHFA should ensure that the appropriate management officials develop a process to reasonably assure that recorded cash award payments match what management authorized as documented on the approved SF-52.*


**Management Response:** FHFA agrees with the recommendation. OHRM has updated the Awards SOP, which is expected to be effective by May 2023. The updated SOP clearly documents how to process various awards. In addition, the SOP includes a periodic review of award actions.



I would like to acknowledge the dedication and professionalism of the GAO staff who conducted the financial statement audit. We find the report and its conclusions valuable in continuing to enhance our personnel processing and payroll controls. If there are questions related to our response, please contact Monica M.P. Matthews, Human Resources Director, at [monica.matthews@fhfa.gov](mailto:monica.matthews@fhfa.gov).

Sincerely,

**KATRINA  
JONES**

 Digitally signed by KATRINA  
JONES  
Date: 2023.03.29 14:25:18  
-04'00'

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Katrina D. Jones  
Chief Operating Officer

## **Text of Enclosure I: Comments from the Federal Housing Finance Agency**

March 29, 2023

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Director, Financial Management and Assurance

U. S. Government Accountability Office

441 G Street, NW Washington, D.C. 20548

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Management Response:

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Sincerely,

KATRINA JONES