



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

May 9, 2024

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency

Federal Housing Finance Agency: Improvements Needed in Controls over Management Reviews and Information Systems Access

Dear Director Thompson:

On November 15, 2023, we issued our auditor’s report on the results of our audit of the fiscal year 2023 consolidated financial statements of the Federal Housing Finance Agency (FHFA).¹ As we reported in connection with our audit, although certain controls could be improved, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023. Those controls provided reasonable assurance that FHFA would prevent, or detect and correct, misstatements material to the agency’s consolidated financial statements on a timely basis.

However, we identified a deficiency in FHFA’s internal controls over reviews of the consolidated financial statements that, when combined with a related FHFA Office of Inspector General (FHFA OIG) internal control deficiency,² represents a significant deficiency in FHFA’s internal control over financial reporting.³ We also identified other deficiencies in FHFA’s internal controls that we do not consider to be material weaknesses or significant deficiencies, but which warrant the attention of FHFA management. We previously communicated these deficiencies to management and, where appropriate, are including them in this report. Additionally, the four recommendations from our April 2023 report related to internal controls over the processing of personnel and payroll information remain open because FHFA’s corrective actions were ongoing as of September 30, 2023.⁴

¹GAO, *Financial Audit: Federal Housing Finance Agency’s FY 2023 and 2022 Financial Statements*, [GAO-24-106668](#) (Washington, D.C.: Nov. 15, 2023).

²FHFA and FHFA OIG maintain separate accounting records. These two sets of financial information are combined for financial reporting purposes and presented in FHFA’s consolidated financial statements.

³A 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 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 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.

⁴GAO, *Management Report: Federal Housing Finance Agency Should Improve Controls over Personnel and Payroll Information*, [GAO-23-106487](#) (Washington, D.C.: Apr. 19, 2023).

This report is intended for FHFA management’s use. We are concurrently issuing a separate report with recommendations to FHFA OIG, which includes an FHFA OIG deficiency contributing to the significant deficiency.⁵ Coordinated FHFA and FHFA OIG actions are key to resolving the significant deficiency.

Objectives, Scope, and Methodology

The objectives of this report are to describe (1) deficiencies in FHFA’s internal control over financial reporting that we identified during our audit of FHFA’s consolidated financial statements for fiscal year 2023 and (2) the status of FHFA’s corrective actions to address recommendations related to internal control deficiencies in our previous management report as of September 30, 2023.

As part of our financial statement audit, we evaluated FHFA internal control over financial reporting by reviewing FHFA policies and procedures; interviewing FHFA management and staff; observing controls in operation; and testing controls to determine whether they were designed, implemented, and operating effectively. During our work, we communicated our findings to management. A full discussion of our scope and methodology is included in our auditor’s report on FHFA’s fiscal year 2023 consolidated financial statements.⁶

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.

Internal Control Deficiencies Identified during the Fiscal Year 2023 Audit

During our audit of FHFA’s fiscal year 2023 consolidated financial statements, we identified an error in FHFA’s consolidated balance sheets—resulting from an incorrect FHFA OIG payroll accrual amount—which, combined with an FHFA OIG internal control deficiency, represented a significant deficiency in FHFA’s internal control over financial reporting. As part of the significant deficiency, we found that FHFA’s internal controls did not timely prevent, or detect and correct, a misstatement in FHFA OIG’s accrual of the Federal Employees’ Compensation Act (FECA) actuarial liability, as of September 30, 2023.⁷ We also identified deficiencies related to information system access controls that we did not consider to be material weaknesses or significant deficiencies, but that nonetheless warrant FHFA management’s attention.

FHFA Lacks Detailed Guidance for Review of Consolidated Financial Statements Contributing to a Significant Deficiency

Although the FHFA OIG maintains its own financial records, FHFA includes FHFA OIG activity and balances in FHFA’s consolidated financial statements for reporting purposes. Specifically, FHFA reports its FECA actuarial liability on its Consolidated Balance Sheets and in Note 6, *Liabilities Covered and Not Covered by Budgetary Resources*. The Department of the Treasury’s Bureau of the Fiscal Service (Fiscal Service) provides accounting services to both

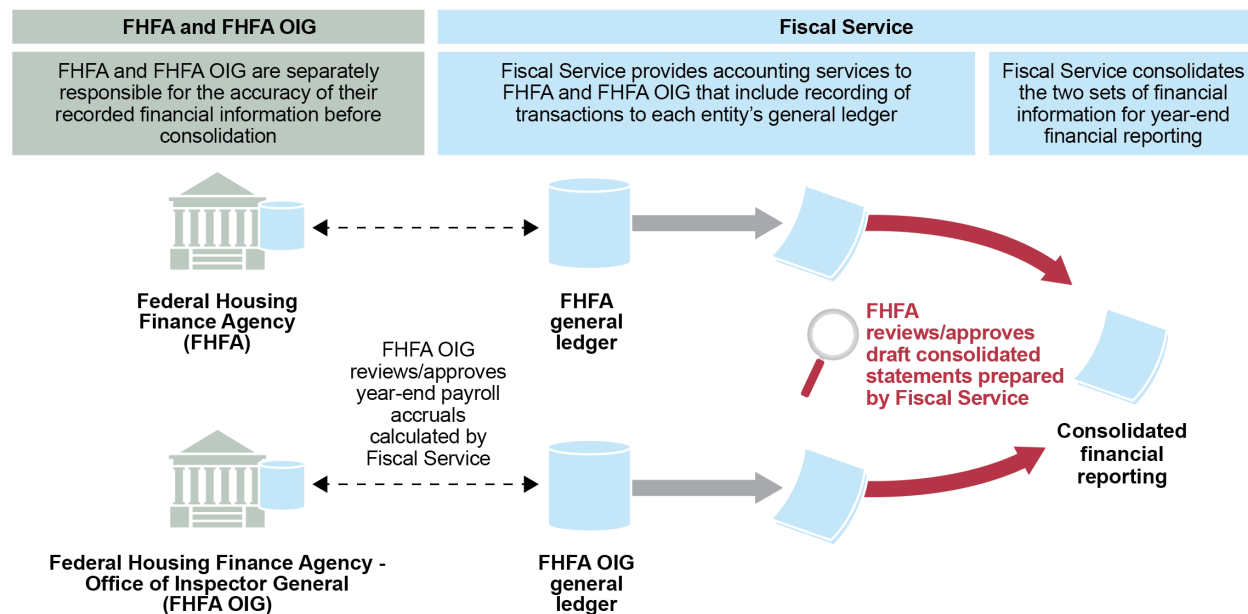
⁵GAO, *Federal Housing Finance Agency Office of Inspector General: Improvements Needed in Review Procedures for Payroll Accounting*, [GAO-24-107430](#) (Washington, D.C.: May 9, 2024).

⁶[GAO-24-106668](#).

⁷FECA (5 U.S.C. § 8101 et seq.) provides compensation to federal employees for disability due to work-related injury or illness.

FHFA and FHFA OIG, including calculating each entity's FECA actuarial liability amount and compilation of FHFA's consolidated financial statements (see fig. 1).

Figure 1: FHFA's Financial Reporting Processes



Source: GAO analysis of FHFA, FHFA OIG, and Department of the Treasury Bureau of the Fiscal Service (Fiscal Service) information, GAO (images). | GAO-24-107219

Condition. During our audit, we found that Fiscal Service incorrectly calculated FHFA OIG's year-end FECA actuarial liability amount, which resulted in overstating the \$660,000 liability by \$1.3 million. We found that FHFA OIG reviewed and approved the incorrect amount, which Fiscal Service then used in preparing FHFA's draft consolidated financial statements. Subsequently, FHFA's Office of Budget and Financial Management (OBFM) staff reviewed the draft consolidated financial statements but did not identify this overstatement. As a result, FHFA and FHFA OIG internal controls did not timely prevent, or detect and correct, this misstatement in FHFA's draft fiscal year 2023 consolidated financial statements. After we brought the misstatement to FHFA's attention, FHFA corrected the consolidated financial statements and FHFA OIG corrected the accrual amount in its accounting records.

Criteria. FHFA's policy requires the OBFM staff to review and approve information in the draft consolidated financial statements prepared by Fiscal Service, which consolidates information that FHFA OIG provides. Further, *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risk and implement control activities through policies.⁸ Management clearly documents internal control activities in a manner that allows the documentation to be readily available for examination. Policies are documented in the appropriate level of detail to allow management to effectively monitor the control activity.

⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

Cause. FHFA has written procedures for reviewing the consolidated financial statements. However, these documented procedures do not contain sufficiently detailed guidance on how FHFA personnel should effectively perform such reviews.

Effect. By not having detailed guidance for personnel on performing effective reviews of the FECA actuarial liability information in the consolidated financial statements, FHFA increases the risk of misstating FHFA's consolidated financial statements. This deficiency, in combination with FHFA OIG's related control deficiency, represents a significant deficiency in FHFA's internal control over financial reporting.

Recommendation for Executive Action. The Director of FHFA should direct the appropriate management officials to develop sufficiently detailed guidance for how FHFA personnel should review accounting information that FHFA OIG provides for inclusion in FHFA's consolidated financial statements, to detect and timely correct misstatements. (Recommendation 1)

Access Rights to Federal Personnel Payroll System Granted without Documentation of Required Approval

FHFA uses the Federal Personnel Payroll System (FPPS) to process employee information, including personnel transactions and supplemental payments. FHFA controls access to FPPS for its employees and determines the level of access (access rights) an employee should have.⁹ FHFA designated a management official, referred to as the FPPS approving official, with the authority to approve FPPS access and access rights for FHFA employees.

Condition. During our audit, we found three instances where FHFA could not provide documentation that it followed established procedures for granting employees access to FPPS. Specifically, it could not provide documentation supporting that the FPPS approving official authorized FPPS access or access rights for these three employees, two of which had elevated access rights.

Criteria. FHFA's policy provides the FPPS approving official the authority to grant employees access to FPPS. The National Institute of Standards and Technology (NIST) Special Publication 800-53 recommends that organizations (1) require approvals for requests to create system accounts and (2) authorize access to the system based on a valid access authorization.¹⁰ Additionally, *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risk.¹¹ Management clearly documents internal control activities in a manner that allows the documentation to be readily available for examination.¹²

⁹FHFA may assign "elevated" access rights to an employee based on the employee's role. Elevated access rights include initiating or approving personnel actions.

¹⁰The Federal Information Security Modernization Act of 2014 assigns responsibility to NIST to provide standards and guidelines on information security to agencies. Pub. L. No. 113-283, § 2, 128 Stat. 3073, 3075 (Dec. 18, 2014), *codified as amended at* 44 U.S.C. § 3553. NIST has issued related standards and guidelines, including Special Publication 800-53, *Recommended Security Controls for Federal Information Systems and Organizations*.

¹¹[GAO-14-704G](#).

¹²*See id.*

Cause. While FHFA’s documented policy specifies that the FPPS approving official has the authority to grant employees access to FPPS, this policy does not clearly describe (1) the process and procedures that FHFA employees should follow for requesting FPPS access, (2) the nature and extent of access rights appropriate for an employee’s position, nor (3) the documentation that FHFA should retain as evidence when the approving official grants access.

Effect. Without effective control activities to reasonably assure that it only grants FPPS access to individuals authorized by the FPPS approving official and that individuals are granted the appropriate access rights, FHFA increases the risk of unauthorized use of or changes to its FPPS information.

Recommendation for Executive Action. The Director of FHFA should direct the appropriate management officials to update existing policy for obtaining FPPS access to clearly describe (1) the process and procedures that staff should follow to request access, (2) the nature and extent of access rights appropriate for each employee’s position, and (3) the documentation FHFA should maintain as evidence that the designated approving official granted the access. (Recommendation 2)

Access to Information Systems Not Timely Removed for Individuals Separated from the Agency

When an employee separates (i.e., resigns, retires, or is terminated) from FHFA, the agency’s human resource department is responsible for performing a series of procedures to notify appropriate FHFA personnel so that they remove the individual’s access to various FHFA information systems. FHFA performs periodic reviews, at least annually, to help ensure that separated employees’ access rights are removed from FHFA information systems.

Condition. During our audit, we found three instances where FHFA took several months to remove access to its information systems from individuals who separated from the agency during fiscal year 2023. In two instances, FHFA did not remove the separated employees’ access to ConcurGov.¹³ FHFA had not performed its semiannual review of ConcurGov access rights at the time we identified these instances. In the third instance, FHFA did not remove a separated employee’s access to FPPS. While FHFA performed its annual review of FPPS access rights, its review did not detect the case we identified.

Criteria. FHFA’s documented policies require the removal of access to various information systems for employees upon separation from the agency. Additionally, the Federal Information Security Modernization Act of 2014 requires agencies to develop, document, and implement an information security program to assess the risk resulting from unauthorized access, use, disclosure, modification, or destruction of information.¹⁴ Further, *Standards for Internal Control in the Federal Government* states that management should design the entity’s information system and related control activities to achieve objectives and respond to risk. As such, management designs control activities for security management of the entity’s information system for appropriate access by internal and external sources. *Standards for Internal Control in the Federal Government* also states that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. As such, management

¹³ConcurGov is a system government employees use to make travel arrangements and obtain reimbursement for travel expenses.

¹⁴44 U.S.C. § 3554(b).

performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations.¹⁵

Cause. While FHFA has procedures in place to remove access to its information systems for individuals who separate from the agency, these procedures did not always work effectively during fiscal year 2023. Management was not aware of this deficiency because FHFA had not established monitoring procedures to reasonably assure that personnel were following existing procedures to remove information systems access for separated employees.

Effect. Without effective controls to reasonably assure that it removes access to information systems from separated employees, FHFA increases the risk of unauthorized access, use, disclosure, modification, or destruction of its information.

Recommendation for Executive Action. The Director of FHFA should direct the appropriate management officials to develop monitoring procedures to reasonably assure that FHFA personnel follow existing procedures to timely remove information systems access for separated employees. (Recommendation 3)

Status of Prior Recommendations Related to Internal Controls over Personnel and Payroll Information

Our fiscal year 2023 audit included following up on the status of the FHFA’s corrective actions to address recommendations from our April 2023 report related to internal control over personnel and payroll information. Table 1 summarizes the corrective actions taken related to four previously reported recommendations.

Table 1: Status of Prior Year’s Recommendations Related to Internal Control over Personnel and Payroll Information as of September 30, 2023

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
1.	GAO-23-106487 , #23-01	The Director of the Federal Housing Finance Agency (FHFA) should ensure that the appropriate management officials undertake a detailed review of existing personnel records to identify and correct errors.	2022	Open
		<p>Actions taken:</p> <p>According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2023. FHFA awarded a contract for three contractors to independently conduct a comprehensive review of all FHFA electronic official personnel folders (eOPF). This review includes identifying all errors related to the accuracy and completeness of personnel and payroll actions and their supporting documentation. As errors are identified, the Office of Human Resource Management (OHRM) will be responsible for making the needed corrections. OHRM has developed a project plan and work is under way.</p>		

¹⁵[GAO-14-704G](#).

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
2.	GAO-23-106487 , #23-02	<p>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.</p> <p>Actions taken: According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2023. FHFA updated its benefits processing standard operating procedure (effective March 2023) to include a new process. Specifically, it plans to have a senior benefits specialist review a newly hired employee's eOPF (including those with prior federal service) and benefits elections within 30 days of receipt to verify that the information is accurate.</p>	2022	Open
3.	GAO-23-106487 , #23-03	<p>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.</p> <p>Actions taken: According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2023. FHFA updated its payroll oversight procedures (effective August 2023) to include a process for a senior financial management specialist, or designee, within the Office of Budget and Financial Management (OBFM), to conduct a periodic review of the financial coding information associated with employee time charges and to follow up with OHRM if any charges are identified that might be erroneous and in need of correction.</p>	2022	Open
4.	GAO-23-106487 , #23-04	<p>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 Standard Form (SF) 52.</p> <p>Actions taken: According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2023. FHFA implemented an awards standard operating procedure (effective April 2023), which includes periodic reviews of processed personnel actions, including awards, to verify that personnel actions are correctly documented and coded on the SF 52. FHFA informed us that it has completed a periodic review of all fiscal year 2023 excellence awards.</p>	2022	Open

Source: GAO. | GAO-24-107219

Agency Comments and Our Evaluation

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 three recommendations in this report and described actions it plans to take to address the recommendations regarding management reviews and information systems access. The actions that FHFA described, if implemented

effectively, would address our recommendations. We will evaluate the effectiveness of FHFA's efforts on these recommendations and those from our April 2023 report during our audit of its fiscal year 2024 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>.

If you or your staff have any questions about this report, please contact me at (202) 512-7795 or sitwilliamsa@gao.gov. GAO staff members who made key contributions to this report include Ted Hu (Assistant Director), Matt Frideres, Seth Brewington, and Jason Kelly.

Sincerely,

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

Enclosure I: Comments from the Federal Housing Finance Agency



FEDERAL HOUSING FINANCE AGENCY Office of the Director

April 22, 2024

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, *Improvements Needed in Controls over Management Reviews and Information Systems Access*. I appreciate GAO's work during the fiscal year (FY) 2023 financial statements audit. I am pleased GAO found that the Federal Housing Finance Agency's (FHFA) FY 2023 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 over financial reporting. To that end, FHFA has taken steps to comply with all of GAO's recommendations contained in the Management Report as described below.

Recommendation 1: *The Director of FHFA should direct the appropriate management officials to develop sufficiently detailed guidance for how FHFA personnel should review accounting information provided by the FHFA OIG, for inclusion in FHFA's consolidated financial statements, to detect and timely correct misstatements.*

Management Response: FHFA agrees with the recommendation. The Office of Budget and Financial Management (OBFM) will enhance existing coordination and update its procedures to provide detailed processes for the review of FHFA-OIG accounting information prior to consolidation with FHFA's consolidated financial statements. FHFA will complete these actions by June 30, 2024.

Recommendation 2: *The Director of FHFA should direct the appropriate management officials to update existing policy for obtaining FPPS access to clearly describe (1) the process and procedures that staff should follow to request access, (2) the nature and extent of access rights appropriate for the employee's position, and (3) the documentation FHFA should maintain as evidence that the designated approving official granted the access.*

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Management Response: FHFA agrees with the recommendation. The Office of Human Resources Management (OHRM) will update existing guidance for obtaining FPPS access to clearly describe: (1) the process and procedures that staff should follow to request access, (2) the nature and extent of access rights appropriate for the employee's position, and (3) the documentation FHFA should maintain as evidence that the designated approving official granted the access. As part of the update, OHRM will develop an access request form to be used by employees and contractors. The access request form will ensure consistency in the submission and approval of requests, as well as the nature and extent of access rights. OHRM will retain the form for recordkeeping and tracking purposes. FHFA will complete these actions by June 30, 2024.

Recommendation 3: *The Director of FHFA should direct the appropriate management officials to develop monitoring procedures to reasonably assure that FHFA personnel follow existing procedures to timely remove information systems access from separated employees.*

Management Response: FHFA agrees with the recommendation and will use the bi-weekly FHFA Separations Report to ensure that separated employees who had active information system accounts have their access deactivated in a timely manner. OHRM will share the Separations Report with OBFM and the Office of Information and Technology Management for their review and monitoring of system access. The cadence of the review and deactivation of employee accounts will be monitored on a quarterly basis. FHFA will complete these actions by June 30, 2024.

I would like to acknowledge the dedication and professionalism of the GAO staff who conducted the financial statement audit. The report and its conclusions are a valuable resource for FHFA as the Agency continues to enhance personnel processing and payroll controls. If there are questions related to our response, please contact Amy Boyles, Acting Chief Financial Officer at amy.boyles@fhfa.gov.

Sincerely,



Sandra L. Thompson

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