



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

May 9, 2024

The Honorable Brian M. Tomney
Inspector General
Federal Housing Finance Agency

Federal Housing Finance Agency Office of Inspector General: Improvements Needed in Review Procedures for Payroll Accounting

Dear Inspector General Tomney:

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 the FHFA Office of Inspector General’s (FHFA OIG) controls over payroll accruals that, when combined with a related FHFA internal control deficiency,² represents a significant deficiency in FHFA’s internal control over financial reporting.³ We also identified a deficiency in FHFA OIG’s internal controls over financial reporting that we do not consider to be a material weakness or significant deficiency, but which warrants the attention of FHFA OIG management. We previously communicated these deficiencies to FHFA OIG management and are including them in this report.

This report is intended for FHFA OIG management’s use. We are concurrently issuing a separate report with recommendations to FHFA, which includes an FHFA deficiency

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.

contributing to the significant deficiency.⁴ Coordinated FHFA and FHFA OIG actions are key to resolving the significant deficiency.

Objective, Scope, and Methodology

The objective of this report is to describe the internal control deficiencies in FHFA OIG's operations that we identified during our audit of FHFA's consolidated financial statements for fiscal year 2023.

As part of our financial statement audit, we evaluated FHFA OIG's internal control over financial reporting by reviewing FHFA OIG policies and procedures; interviewing FHFA OIG management and staff; observing FHFA OIG controls in operation; and testing FHFA OIG controls to determine whether they were designed, implemented, and operating effectively. A full discussion of our scope and methodology is included in our auditor's report on FHFA's fiscal year 2023 consolidated financial statements.⁵

During our work, we communicated our findings related to FHFA OIG internal controls to FHFA OIG management. 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. This error, combined with an FHFA 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 OIG's internal controls did not timely prevent, or detect and correct, a misstatement in its accrual of the Federal Employees' Compensation Act (FECA) actuarial liability, as of September 30, 2023.⁶ We also identified a deficiency related to timely identification of intragovernmental differences that we did not consider to be a material weakness or significant deficiency, but which nonetheless warrants FHFA OIG management's attention.

FHFA OIG Lacks Detailed Guidance for Review of Payroll Accruals Contributing to Significant Deficiency

Although FHFA OIG maintains its own financial records, FHFA includes FHFA OIG activity and balances in its 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 FHFA OIG and

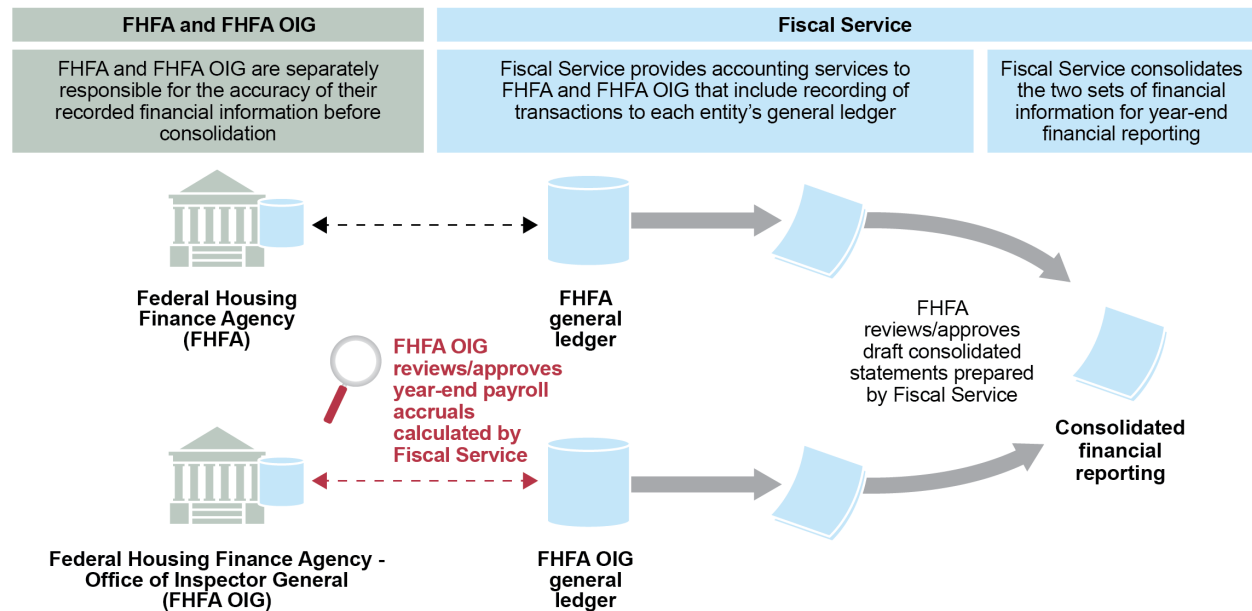
⁴GAO, *Federal Housing Finance Agency: Improvements Needed in Controls over Management Reviews and Information Systems Access*, [GAO-24-107219](#) (Washington, D.C.: May 9, 2024).

⁵[GAO-24-106668](#).

⁶FECA (5 U.S.C. § 8101 et seq.) provides compensation to federal employees for disability due to work-related injury or illness.

FHFA, including the calculation of 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-24-107430

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 OIG’s policy requires FHFA OIG staff to review and approve its FECA actuarial liability amount that Fiscal Service calculates. Additionally, *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.⁷ 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.

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

Cause. FHFA OIG has written procedures for reviewing and approving its FECA actuarial liability amounts. However, these documented procedures do not contain sufficiently detailed guidance on how FHFA OIG personnel should effectively perform such reviews.

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

Recommendation for Executive Action. The FHFA Inspector General should direct the appropriate FHFA OIG management officials to develop sufficiently detailed guidance for how FHFA OIG staff should review accounting information it provides to FHFA, for inclusion in FHFA's consolidated financial statements, to prevent misstatements. (Recommendation 1)

FHFA OIG Intragovernmental Differences Not Timely Identified and Resolved by FHFA OIG

Intragovernmental transactions are between one federal entity and another federal entity, referred to as a trading partners. Intragovernmental differences occur when trading partners record different amounts or on different dates for the same transaction. Unresolved FHFA OIG intragovernmental differences could result in misstatements in accounting information it provides to FHFA for inclusion in FHFA's consolidated financial statements.

Condition. During our audit, we found that FHFA OIG staff reviewed and approved its third quarter intragovernmental reconciliation. However, the reconciliation did not identify a \$27.3 million difference between the amounts recorded by FHFA OIG and a trading partner, nor did it document whether the difference resulted in a misstatement in the FHFA OIG's financial information that should be corrected to resolve the difference. In this instance, the difference was due to FHFA OIG's having recorded a transaction that a trading partner had not yet recorded at the time Fiscal Service prepared the reconciliation. The difference subsequently resolved before fiscal year-end when the trading partner recorded its side of the transaction.

Criteria. FHFA OIG's accounting policy states that its staff should review the quarterly intragovernmental reconciliation to identify differences greater than \$1.5 million and ensure that it has explanations for such differences. Further, Office of Management and Budget (OMB) Circular A-136 states that throughout the fiscal year and at year-end, entities are required to reconcile intragovernmental balances and transactions with trading partners and resolve any identified differences, with the goal of resolving all differences prior to final submission of data for the financial report.⁸ *Treasury Financial Manual* states that all differences should be resolved by year-end.⁹ Entities must reconcile and resolve these differences on a periodic basis with their trading partners. In addition, *Standards for Internal Control in the Federal Government* states that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.¹⁰ As such, management performs ongoing monitoring

⁸Office of Management and Budget, *Financial Reporting Requirements*, OMB Circular A-136 (Washington, D.C.: May 2023). *Section IV.3 - Reconciling and Resolving Differences in Intragovernmental Balances and Transactions*.

⁹*Treasury Financial Manual*, vol. 1, pt. 2, ch. 4700, sec. 4750 – *Intra-governmental Transactions/Balances*.

¹⁰[GAO-14-704G](#).

of the design and operating effectiveness of the internal control system as part of the normal course of operations.

Cause. While FHFA OIG has documented procedures for its staff to review quarterly intragovernmental differences, this control was not operating effectively. FHFA OIG management was not aware of this deficiency because FHFA OIG had not established monitoring procedures to reasonably assure that personnel were following existing procedures to effectively review the quarterly intragovernmental reconciliations.

Effect. By not monitoring to reasonably assure FHFA OIG staff are effectively reviewing the intragovernmental reconciliation to timely identify and resolve differences during the fiscal year, FHFA OIG increases the risk that affected balances it provides to FHFA, for inclusion in FHFA's consolidated financial statements, will be misstated.

Recommendation for Executive Action. The FHFA Inspector General should direct the appropriate FHFA OIG management officials to develop monitoring procedures to reasonably assure that FHFA OIG staff are effectively reviewing the FHFA OIG quarterly reconciliations to timely identify and resolve intragovernmental differences. (Recommendation 2)

Agency Comments and Our Evaluation

We provided a draft of this report to FHFA OIG for comment. In its comments, reproduced in the enclosure, FHFA OIG stated that it agreed with the two recommendations and described actions it has taken to address the recommendations regarding its review procedures. The actions that FHFA OIG described, if implemented effectively, would address our recommendations. We will evaluate the effectiveness of FHFA OIG's efforts on these recommendations during our audit of FHFA's fiscal year 2024 financial statements.

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,



Anne Sit-Williams
Director, Financial Management and Assurance

Enclosure - 1

Enclosure I: Comments from the Federal Housing Finance Agency Office of Inspector General



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

April 22, 2024

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

Dear Ms. Sit-Williams:

Thank you for providing the U.S. Government Accountability Office (GAO) draft report titled *Management Report: Improvements Needed in Review Procedures for Payroll Accruals, GAO-24-107430*. The report addresses the audit of the Federal Housing Finance Agency Office of Inspector General (FHFA-OIG) FY2023 financial statements and recommends improvements regarding internal controls over payroll accruals and intergovernmental reconciliations. I appreciate GAO's findings and the opportunity to provide management comments.

FHFA-OIG agrees with GAO's recommendations and has taken a number of proactive steps to strengthen controls over financial reporting as described in this response. As such, I am confident FHFA-OIG will maintain effective internal control over financial reporting.

I look forward to continuing the positive working relationship with the GAO team during the upcoming FY2024 financial statements audit engagement. Please direct any questions or comments on these matters to Adam Silverman, Deputy Inspector General for Administration and Chief Financial Officer, at (202) 730-0360.

Sincerely,

A handwritten signature in black ink, appearing to read "B.M. Tomney". The signature is stylized and written in a cursive-like font.

Brian M. Tomney
Inspector General

Attachment

FHFA-OIG Response to GAO 2023 Management Report

Recommendation 1:

The FHFA Inspector General should direct the appropriate FHFA OIG management officials to develop sufficiently detailed guidance for how FHFA OIG staff should review accounting information it provides to FHFA, for inclusion in FHFA's consolidated financial statements, to prevent misstatements.

Management Response 1:

FHFA-OIG agrees with the recommendation. The Budget and Finance Division, Office of Administration, will update the detailed procedures in the FHFA-OIG Accounting Manual for reviewing accounting information provided to FHFA for inclusion in FHFA's consolidated financial statements. The Budget and Finance Division's enhanced approach will include a new variance report to identify for review any irregularities in the financial statements.

Estimated Completion Date: May 1, 2024

Recommendation 2:

The FHFA Inspector General should direct the appropriate FHFA OIG management officials to develop monitoring procedures to reasonably assure that FHFA OIG staff are effectively reviewing the FHFA OIG quarterly reconciliations to timely identify and resolve intragovernmental differences.

Management Response 2:

FHFA-OIG agrees with the recommendation. The Budget and Finance Division, Office of Administration, has updated the FHFA-OIG Accounting Manual to include additional monitoring procedures to reasonably assure that FHFA OIG staff are effectively reviewing the FHFA OIG quarterly reconciliations to timely identify and resolve intragovernmental differences. Additionally, the Budget and Finance Division held intensive training in August 2023 to further enhance staff knowledge and ability to identify differences in the General Fund on the Material Difference Reports. Evidence of these updates will be provided under separate cover.

Completion Date: December 31, 2023

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