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United States Government Accountability Office
Washington, DC 20548

June 3, 2010

Mr. Edward J. DeMarco
Acting Director
Federal Housing Finance Agency

Subject: *Management Report: Opportunities for Improvements in FHFA's Internal Controls and Accounting Procedures*

Dear Mr. DeMarco:

In November 2009, we issued our opinion on the fiscal year 2009 financial statements of the Federal Housing Finance Agency (FHFA). Our report also included our opinion on the effectiveness of FHFA's internal control over financial reporting as of September 30, 2009, and our evaluation of FHFA's compliance with provisions of selected laws and regulations for the fiscal year ended September 30, 2009.¹

The Housing and Economic Recovery Act of 2008 (HERA) created FHFA and gave it responsibility for, among other things, the supervision and oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the 12 federal home loan banks. Specifically, FHFA was assigned responsibility for ensuring that the regulated entities operate in a fiscally safe and sound manner, including maintenance of adequate capital and internal controls, in carrying out their housing and community development finance mission. HERA requires FHFA to annually prepare financial statements, and requires GAO to audit these statements.

HERA established FHFA as an independent agency on July 30, 2008. HERA also abolished, effective within 1 year of the act's enactment, the Office of Federal Housing Enterprise Oversight (OFHEO)² and the Federal Housing Finance Board (FHFB).³ During fiscal year 2009, OFHEO's and FHFB's personnel, property, and

¹GAO, *Financial Audit: Federal Housing Finance Agency's Fiscal Year 2009 Financial Statements*, [GAO-10-218](#) (Washington, D.C.: Nov. 16, 2009).

²The former OFHEO's mission was to promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.

³The former FHFB's mission was to ensure that the federal home loan banks were safe and sound so they served as a reliable source of liquidity and funding for the nation's housing finance and community investment needs.

mission responsibilities were transferred to FHFA,⁴ and the assets, liabilities, and financial transactions of OFHEO and FHFBS became FHFA's responsibility. While FHFA was in existence prior to the start of fiscal year 2009, this was its first full year of operations and the first year for which it prepared financial statements. Prior to July 1, 2009, FHFA processed transactions using the separate accounting systems of FHFBS and OFHEO. On July 1, 2009, FHFA began using its own accounting system.

The purpose of this report is to present issues identified during our audit of FHFA's fiscal year 2009 financial statements regarding certain internal controls and accounting procedures and to recommend actions to address those issues.⁵ We are making six recommendations for strengthening FHFA's internal controls and accounting procedures.

Results in Brief

During our audit of FHFA's fiscal year 2009 financial statements, we identified four internal control issues that could adversely affect FHFA's ability to meet its internal control objectives. We do not consider them to be material weaknesses or significant deficiencies⁶ in relation to FHFA's financial statements. Nonetheless, we believe that they warrant management's attention and action. These issues concerned necessary controls to ensure

- undelivered orders balances were calculated accurately,
- receipt and acceptance of services provided or goods delivered was completed and documented prior to payment,
- amounts were accurately recorded for goods received or services rendered but not yet paid at the end of an accounting period, and
- costs were properly classified and recorded.

These issues increase the risk of FHFA not preventing or promptly detecting and correcting (1) misstatements in asset, liability, expense, and undelivered orders accounts, (2) misappropriation of assets as a consequence of improper expenditures, and (3) misstatements in the financial statements.

⁴Certain employees and activities of the Department of Housing and Urban Development's Government Sponsored Enterprises (GSE) Oversight Team, related to the regulation of the mission of Fannie Mae and Freddie Mac, were also transferred to FHFA.

⁵We will issue a separate report on issues we identified concerning FHFA's information security controls, including details on information security deficiencies in the agency's system of internal control over financial reporting.

⁶A significant deficiency is a control deficiency, or combination of deficiencies, in internal control 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 a combination of deficiencies, in internal control 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.

At the end of our discussion of each of these issues in the following sections, we present our recommendations for strengthening FHFA's internal controls and accounting procedures. These recommendations are intended to improve management's oversight and controls and minimize the risk of misappropriation of assets and misstatements in FHFA's accounts and financial statements.

In its comments, FHFA agreed with our recommendations and described actions it had taken to address the control issues described in this report. At the end of our discussion of each issue in this report, we have summarized FHFA's related comments and provide our evaluation. We have reprinted FHFA's comments in enclosure II.

Scope and Methodology

As part of our audit of FHFA's fiscal year 2009 financial statements, we evaluated FHFA's internal controls and tested its compliance with selected provisions of laws and regulations. We designed our audit procedures to test relevant controls over financial reporting, including those designed to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of FHFA's financial statements in conformity with U.S. generally accepted accounting principles.

We conducted our audit in accordance with U.S. generally accepted government auditing standards. Further details on our scope and methodology are included in our November 2009 report on the results of our audit of the fiscal year 2009 financial statements and are summarized in enclosure I.

Undelivered Orders

During our fiscal year 2009 testing of FHFA's undelivered orders⁷ balances shown in its fiscal year 2009 financial statements, we found that such balances included erroneous fund obligation⁸ and deobligation⁹ transactions.

For example, during our testing of the fiscal year 2009 beginning balances for undelivered orders,¹⁰ we determined that a lease term for office space had expired in

⁷Undelivered orders are the value of goods and services ordered and obligated that have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred.

⁸An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received. A commitment is an administrative reservation of allotted funds, or of other funds, in anticipation of their obligation.

⁹Deobligation refers to an agency's cancellation or downward adjustment of previously incurred obligations.

¹⁰FHFA's beginning balances for undelivered orders consisted of the fiscal year 2008 ending balances of OFHEO and FHFBS. Because FHFA's fiscal year 2009 opening balances were rolled forward from

September 2008, but FHFA's records erroneously continued to reflect an obligation for the lease in the amount of about \$220,000 at the beginning of fiscal year 2009. This resulted in an undelivered order remaining in the accounting records for this amount at the end of fiscal year 2008 that should have been deobligated. Additionally, we found that FHFA did not record the full amount for the lease obligation in the next lease year. This resulted in insufficient funding for the lease obligation in fiscal year 2009. Using this approach resulted in obligation activity being recorded in an improper period. In another instance, we found that the entire amount for a purchase order for laptop batteries was shown as undelivered, yet an estimated \$1,200 of the goods covered under the order were received as of September 30, 2008. The amount received on this purchase order should have been deobligated on September 30, 2008. We found that these errors were attributed to the lack of sufficiently detailed guidance on the proper methods for obligating and deobligating contract amounts in OFHEO's Administrative Accounting Manual, the accounting manual in effect during the time these transactions were processed.

*Standards for Internal Control in the Federal Government*¹¹ provide that agencies are to ensure accurate and timely recording of transactions and events. FHFA's new Administrative Accounting Manual, which was provided to us in October 2009, requires that the status of undelivered orders be reviewed. Through discussions with FHFA, we were informed that, on a quarterly basis, the Bureau of Public Debt (BPD), FHFA's accounting services provider,¹² provides FHFA with an open obligations report. FHFA's Contracting Officer Technical Representatives (COTR)¹³ review all open obligations and determine the current status of each obligation. However, FHFA's Administrative Accounting Manual did not identify specific steps to be performed as part of the COTR's review of undelivered orders and, in particular, the use of the open obligations report to ensure proper accounting for obligation and deobligation transactions.

Deficiencies with respect to timely and accurate recording of contract/obligation activity can lead to misstatements in undelivered orders balances reflected in FHFA's financial statements.

OFHEO's and FHFB's fiscal year 2008 ending balances, it was important that we obtain sufficient evidence regarding the accuracy of OFHEO's and FHFB's fiscal year 2008 ending balances. As a result, we applied additional audit procedures on these balances.

¹¹GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

¹²On July 1, 2009, FHFA officially merged its accounting operations into one accounting system, which involved outsourcing most of its accounting services to BPD, who serves as FHFA's accounting services provider. As such, FHFA utilizes BPD's Financial Management System (FMS), which includes (1) Oracle Federal Financials (core accounting system); (2) PRISM (procurement), GovTrip (travel), and Citidirect (charge card) feeder systems; (3) Discoverer reporting system; and (4) a manual property and equipment inventory tracking system. FHFA is ultimately responsible for overseeing all work performed by the BPD.

¹³The COTR performs critical acquisition and technical functions and contracting officers rely on them to ensure that contracts are managed properly.

Recommendations

We recommend that you direct the Chief Financial Officer to enhance FHFA's Administrative Accounting Manual by

- incorporating specific, detailed steps for the COTR review of contract balances, including the use of the open obligations report provided by BPD in the COTR review process and
- including specific, detailed steps on when and how to properly account for obligating and deobligating contract amounts.

FHFA Comments and Our Evaluation

FHFA agreed with the recommendations. FHFA stated that the agency has updated its Administrative Accounting Manual to incorporate specific, detailed steps for the COTR review of contract balances, including the use of the open obligations report provided by BPD in the COTR review process, and included specific, detailed steps on when and how to properly account for obligating and deobligating contract amounts. Additionally, FHFA stated that it had developed and presented training covering accrual processing, and created invoice and payment procedures. We will evaluate the effectiveness of FHFA's corrective actions during our fiscal year 2010 financial audit.

Documentation and Review Process for Receipt and Acceptance of Goods and Services

Receipt and acceptance generally occurs when an entity officially receives goods or services. During this process, the entity should verify, before payment is made, that the goods or services were actually received and that what was received is what was agreed to.

During our testing of non-payroll¹⁴ expense transactions conducted as part of our fiscal year 2009 audit, we found that for two procurement transactions, receipt and acceptance supporting documentation was missing or incomplete. Specifically, FHFA could not provide documentation to show evidence of receipt and acceptance related to a \$21,000 payment to the Government Printing Office and a \$2,800 payment to Bloomberg Finance. We also found that FHFA paid for six laptop batteries that were never received, resulting in an overpayment of over \$600. OFHEO's Administrative Accounting Manual, which was the accounting manual in effect during the time these transactions were processed, did not specify the documentation that needed to be maintained to evidence the receipt and acceptance of goods or services.

Standards for Internal Control in the Federal Government provides that agencies are to maintain appropriate documentation of transactions and that agencies are to ensure proper execution of transactions. While OFHEO's previous Administrative

¹⁴Non-payroll expense transactions consist of program expenses other than payroll, such as rent, travel, consulting, and other contracted services, postage, printing, and non-capitalized equipment.

Accounting Manual required that the employee paying the invoice ensure that the agency had received the goods and services before making the payment,¹⁵ it did not provide specific steps on how to apply this policy to ensure it was properly and consistently followed. Consequently, we found this policy was not always adhered to during fiscal year 2009. FHFA's new Administrative Accounting Manual requires the COTR to review supporting documentation, including the invoice or Intra-Governmental Payment and Collections (IPAC) Approval Form,¹⁶ to ensure billing is accurate for the goods received or services provided. In addition, the manual requires this validation process be documented. However, the manual does not specify the documentation that needs to be obtained and maintained as evidence of the receipt and acceptance of goods and services.

Deficiencies with respect to verification or documentation of receipt and acceptance for goods and services invoiced can lead to improper payments for goods or services never received or accepted by the agency.

Recommendation

We recommend that you direct the Chief Financial Officer to revise FHFA's Administrative Accounting Manual to provide for specific, detailed steps for obtaining and maintaining documentation as evidence of receipt and acceptance.

FHFA Comments and Our Evaluation

FHFA agreed with this recommendation. FHFA stated that the agency has updated its Administrative Accounting Manual, created purchase card procedures, and developed invoice and payment procedures. FHFA stated that this guidance includes specific, detailed steps for obtaining and maintaining documentation as evidence of receipt and acceptance. We will evaluate the effectiveness of FHFA's corrective actions during our fiscal year 2010 financial audit.

Expense Accruals

During our testing of accounts payable conducted as part of our fiscal year 2009 audit, we found that expenses and the related accounts payable were not correctly accrued and recorded at both September 30, 2008, and September 30, 2009. For both OFHEO's and FHFB's accounts payable balances at September 30, 2008, which formed the basis for FHFA's beginning balance of accounts payable in fiscal year 2009, we tested disbursements made in the first quarter of fiscal year 2009 to determine whether they were for goods or services received during fiscal year 2008 and whether they had been appropriately recognized as expenses and amounts accrued as of September 30, 2008. We found that agency personnel did not always accurately calculate and record the amounts owed. Specifically, in testing a sample of 70 disbursement transactions in the first quarter of fiscal year 2009, we found that

¹⁵This policy was carried forward and included in FHFA's new Administrative Accounting Manual.

¹⁶FHFA used the IPAC system whenever possible for intragovernmental disbursements and collections. The IPAC Approval Form is used by the COTR to ensure that billing is accurate.

FHFA did not accurately record the accounts payable for 27 OFHEO disbursements, resulting in a net understatement of nearly \$393,000.¹⁷ Additionally, in testing a sample of 46 disbursement transactions in the first quarter of fiscal year 2009, we found that FHFA did not accurately record the accounts payable for 2 FHFB disbursements, resulting in an understatement of nearly \$77,000.¹⁸ After we shared our audit findings with FHFA management, they took steps to correct this issue. Specifically, FHFA provided training in July 2009 to its COTRs on its policy for developing estimates for goods and services received that have not been billed or paid. In addition, FHFA issued a new policy to require the maintenance of supporting documentation for accrual estimates.

Our fiscal year 2009 testing showed that, while improved over fiscal year 2008, FHFA's actions were not fully effective in ensuring accruals for expenses and the related accounts payable were accurately determined and recorded. Specifically, in our testing of FHFA's balance of accounts payable as of September 30, 2009, we found that for 8 of 59 transactions we tested, FHFA over-accrued expenses and the related accounts payable. We found that the COTRs incorrectly accrued the entire open obligation when only part, or in some cases none, of the obligation should have been accrued. These incorrect accruals related to contracts with periods of performance in fiscal year 2010, amounts that should have been deobligated, and amounts accrued for goods not yet ordered. These, in turn, resulted in an over-accrual in FHFA's fiscal year 2009 draft financial statements, and required FHFA to record an adjusting entry of over \$180,000 to correct the over-accrual and avoid overstating its expenses on its final fiscal year 2009 financial statements.

Standards for Internal Control in the Federal Government provides that agencies are to ensure accurate and timely recording of transactions and events. According to FHFA's Administrative Accounting Manual, the COTR and the accounting specialist are responsible for ensuring that accounts payable are recorded accurately. While FHFA took steps to address problems we identified early on in its accrual process, the steps taken were not fully effective. For example, FHFA provided its COTRs with training on the accrual process; however, the training materials did not include examples of expenses that should and should not be accrued. Also, FHFA's new policy with respect to maintaining supporting documentation for accrual estimates did not become effective until fiscal year 2010.

These deficiencies with respect to fully effective controls over its expense and accounts payable accrual process increase FHFA's risk of misstating its liabilities and expenses on its financial statements.

¹⁷The 27 transactions for which exceptions were noted in the OFHEO sample included both under-accruals and over-accruals. The absolute value of the audit difference was \$417,597.

¹⁸We selected all disbursements for the first quarter of fiscal year 2009 over \$10,000, which resulted in our testing 91 percent of OFHEO's disbursements and 86 percent of FHFB's disbursements.

Recommendation

We recommend that you direct the Chief Financial Officer to enhance FHFA's training materials related to accruals to include examples of expenses that should and should not be accrued at the end of an accounting period.

FHFA Comments and Our Evaluation

FHFA agreed with this recommendation. FHFA stated that the agency has developed and presented training materials that include examples of expenses that should and should not be accrued at the end of an accounting period. We will evaluate the effectiveness of FHFA's corrective actions during our fiscal year 2010 financial audit.

Classification and Recording of Costs

During our testing of property and equipment acquisition transactions conducted as part of our fiscal year 2009 audit, we found that FHFA did not always properly classify and record capitalized costs and expenses. In testing 55 transactions that FHFA capitalized, our analysis of supporting documentation showed that 6 should have been expensed. Specifically, expenses related to Helpdesk contractors' services provided in fiscal year 2009 totaling over \$16,000 were incorrectly capitalized, and fiscal year 2009 maintenance expenses related to five examiner workstations totaling nearly \$88,000 were incorrectly capitalized.

FHFA management told us that these errors in capitalization of these expenses resulted from incorrect general ledger account coding. *Standards for Internal Control in the Federal Government* provides that agencies are to ensure accurate recording of transactions and events. OFHEO's Administrative Accounting Manual, which was the manual in effect at the time these transactions were processed, provided that the senior accounting specialist was responsible for ensuring that property and equipment transactions were properly classified. However, the manual did not specify steps to be followed to ensure proper classification. Additionally, the property management guideline for OFHEO, issued in July 2007, similarly did not provide steps necessary to properly account for maintenance costs.

FHFA issued a capitalization policy in May 2009, which provides that maintenance costs should be expensed. Additionally, under FHFA's new Administrative Accounting Manual, the accounting specialist was designated to be responsible for coordinating with BPD to ensure that FHFA property and equipment transactions are properly classified. We were also told, while not explicitly required by the Administrative Accounting Manual, that the Manager of Financial Management Operations also reviews the coding of capitalized assets to ensure accuracy and that FHFA has decided that capitalized transactions should receive a secondary review. However, the roles of the Manager of Financial Management Operations and the secondary reviewer are not discussed in the new accounting manual.

Deficiencies in accurately classifying and recording costs can lead to the misstatement of assets and expenses in the financial statements.

Recommendations

We recommend that you direct the Chief Financial Officer to

- issue a memorandum reiterating policies surrounding the accurate recording and review of transactions to all staff involved in the process and
- update FHFA's Administrative Accounting Manual to include the roles and responsibilities of the Manager of Financial Management Operations and secondary reviewers regarding the identifying and recording of capitalized transactions.

FHFA Comments and Our Evaluation

FHFA agreed with this recommendation. FHFA stated that it has developed oversight procedures for the identification of capital assets, noting that these procedures reiterate policies surrounding the accurate recording and review of transactions to all staff involved in the process. In addition, FHFA stated that it has updated its Administrative Accounting Manual to include the roles and responsibilities regarding the identification and recording of capitalized transactions. We will evaluate the effectiveness of FHFA's corrective actions during our fiscal year 2010 financial audit.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on these recommendations. You should submit your statement to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform within 60 days of the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

This report is intended for use by FHFA management. We are sending copies of this report to the Chairman and Ranking Member of the Senate Committee on Banking, Housing, and Urban Affairs; the Chairman and Ranking Member of the House Committee on Financial Services; the Chairman of the Federal Housing Finance Oversight Board; the Secretary of the Treasury; the Secretary of Housing and Urban Development; the Chairman of the Securities and Exchange Commission; the Director of the Office of Management and Budget; and other interested parties. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by FHFA management and staff during our audit of FHFA's fiscal year 2009 financial statements. If you have any questions about this report or need assistance in

addressing these issues, please contact me at (202) 512-3406 or sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are Peggy Smith, Assistant Director, and Megan McGehrin, Auditor.

Sincerely yours,

A handwritten signature in black ink that reads "Steven J. Sebastian". The signature is written in a cursive style with a large, stylized initial "S".

Steven J. Sebastian
Director
Financial Management and Assurance

Enclosures – 2

Enclosure I

Summary of Audit Scope and Methodology

While our full scope and methodology used in carrying out our fiscal year 2009 audit are detailed in our November 2009 report, in summary, to fulfill our responsibilities as auditor of the financial statements of the Federal Housing Finance Agency (FHFA), we did the following:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by FHFA management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control over financial reporting;
- considered FHFA's process for evaluating and reporting on internal control over financial reporting that FHFA is required to perform by FMFIA;
- assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting;
- evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk;
- tested relevant internal control over financial reporting; and
- tested compliance with selected provisions of the following laws and their related regulations: 31 U.S.C. § 3902 (a), (b), (f)—Interest Penalties Under the Prompt Payment Act; 31 U.S.C. § 3904—Limitations on Discount Payments Under the Prompt Payment Act; 5 U.S.C. § 5332 and 5343, and 29 U.S.C. § 206—Pay and Allowance System for Civilian Employees; Federal Employees' Retirement System Act of 1986, as amended; Social Security Act of 1935, as amended; Federal Employees Health Benefits Act of 1959, as amended; and Housing and Economic Recovery Act of 2008.

Comments from the Federal Housing Finance Agency



Federal Housing Finance Agency

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May 19, 2010

Mr. Steven J. Sebastian
Director
Financial Management and Assurance
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Sebastian:

Thank you for the opportunity to review and comment on the *Management Report: Opportunities for Improvement in FHFA's Internal Controls and Accounting Procedures*. We appreciate GAO's efforts in completing this first year review of the Federal Housing Finance Agency's internal controls and accounting procedures. I am pleased that GAO found FHFA's FY 2009 financial statements were fairly presented in all material respects and that FHFA had effective internal control over financial reporting.

During the course of the FY 2009 financial statement audit, GAO identified opportunities for improvements related to FHFA's internal controls and accounting operations. FHFA agrees that GAO's recommendations will strengthen our internal controls and accounting operations. To that end, FHFA has complied with all of GAO's recommendations contained in the Management Report as discussed below.

Undelivered Orders

GAO Recommendations: The Chief Financial Officer should enhance FHFA's Administrative Accounting Manual by:

- incorporating specific, detailed steps for the Contracting Officer's Technical Representative (COTR) review of contract balances, including the use of the open obligations report provided by Bureau of the Public Debt (BPD) in the COTR review process; and
- including specific, detailed steps on when and how to properly account for obligating and de-obligating contract amounts.

FHFA Response: FHFA agrees with the recommendations. FHFA updated its Administrative Accounting Manual, developed and presented accrual training, and created Invoice and Payment Procedures. These tools incorporate specific, detailed steps for the COTR review of contract balances, including the use of the open obligations report provided by BPD in the COTR review process; and included specific, detailed steps on when and how to properly account for obligating and de-obligating contract amounts.

Status:

Completed updates to Administrative Accounting Manual (see Chapter 10) on May 13, 2010.

Completed accrual training materials and presentations (see tab 15 of the Administrative Accounting Manual) to the COTRs on December 4, 2009 and March 10, 2010.

Completed the Invoice and Payment Procedures (see tab 19 of the Administrative Accounting Manual) on April 27, 2010.

Documentation and Review Process for Receipt and Acceptance of Goods and Services

GAO Audit Recommendation: The Chief Financial Officer should revise FHFA's Administrative Accounting Manual to provide for specific, detailed steps for obtaining and maintaining documentation as evidence of receipt and acceptance.

FHFA Response: FHFA agrees with the recommendation. FHFA updated its Administrative Accounting Manual, created Purchase Card Procedures, and developed Invoice and Payment Procedures. This guidance includes specific, detailed steps for obtaining and maintaining documentation as evidence of receipt and acceptance.

Status:

Completed updates to Administrative Accounting Manual (Chapter 11) on May 13, 2010.

Completed the Purchase Card Procedures (tab 19 of the Administrative Accounting Manual) on April 21, 2010.

Completed the Invoice and Payment Procedures (tab 19 of the Administrative Accounting Manual) on April 27, 2010.

Expense Accruals

GAO Audit Recommendation: The Chief Financial Officer should enhance training materials related to accruals to include examples of expenses that should and should not be accrued at the end of an accounting period.

FHFA Response: FHFA agrees with the recommendation. FHFA developed and presented training materials. These tools include examples of expenses that should and should not be accrued at the end of an accounting period.

Status:

Completed accrual training materials and presentations (see tab 15 of the Administrative Accounting Manual) to the COTRs on December 4, 2009 and March 10, 2010.

Classification and Recording of Costs

GAO Audit Recommendations: The Chief Financial Officer should:

- issue a memorandum reiterating policies surrounding the accurate recording and review of transaction to all staff involved in the process; and
- update FHFA's Administrative Accounting Manual to include the roles and responsibilities of the Manager, Financial Management Operations and secondary reviewers regarding the identifying and recording of capitalized transactions.

FHFA Response: FHFA developed an Oversight Procedures for the Identification of Capital Assets which reiterates policies surrounding the accurate recording and review of transaction to all staff involved in the process. In addition, FHFA updated the Administrative Accounting Manual to include the roles and responsibilities regarding the identification and recording of capitalized transactions.

Status:

Completed the Oversight Procedures for the Identification of Capital Assets (tab 19 of the Administrative Accounting Manual) on May 13, 2010.

Completed updates to Administrative Accounting Manual (Chapter 7) on May 13, 2010.

If you have any questions, please contact Michele Horowitz, Deputy Chief Financial Officer at (202) 414-3816 or Debbie Olejnik, Manager Financial Management Operations and Systems at (202) 414-3817.

Sincerely,



Mark Kinsey
Chief Financial Officer

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