

FEDERAL HOUSING FINANCE BOARD



OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT

FOR THE PERIOD
October 1, 2003-March 31, 2004



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EDWARD KELLEY
INSPECTOR GENERAL

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EXECUTIVE SUMMARY

The mission of the Office of Inspector General (OIG) at the Federal Housing Finance Board (Finance Board) is to support the agency's overall mission and goals established by the President, the Congress, and the Finance Board, while helping to protect the agency from fraud, waste, and abuse. Consistent with OIG's strategic plan for the period, April 1, 2001 to March 31, 2006, and in accordance with the Inspector General Act of 1978, as amended (IG Act), we have relied on audits, investigations, and formal and informal technical assistance to accomplish our mission. OIG's strategic plan and annual audit plan are designed to support the Finance Board's strategic plan. We remained an active member in the federal Inspector General community to facilitate our statutory mandate to participate in government-wide efforts to prevent fraud, waste, and abuse and to remain current on matters affecting the IG community. During this period, we have relied heavily on contracting and reimbursable arrangements to accomplish required audits and investigations.

We conducted audits and audit recommendation follow-up of agency program and administrative functions. These audits were conducted in accordance with generally accepted government auditing standards. Three audits were in process at the beginning of the reporting period. By the end of this reporting period, OIG had completed: 1) an audit of the Finance Board's compliance with the Federal Information Security and Management Act, 2) an audit of the Finance Board's Procurement Policies, Procedures, and Practices, 3) a limited review of the Finance Board's implementation of OMB Circular A-123, 4) a peer review of the National Credit Union Administration Office of Inspector General, and 5) an audit of the Finance Board's Fiscal Year 2003 Financial Statements. Our audit of the effectiveness of the Finance Board's process for recruiting, selecting, and retaining examiners was discontinued in consideration of actions implemented and planned by agency management. One audit remained in process at the end of the reporting period – a survey of the proposed Finance Board Voice Over Internet Protocol telephone system.

Our investigative activity was performed in accordance with [Quality Standards for Investigations](#) issued by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). Investigative matters were appropriately coordinated with officials in the Department of Justice, the Federal Bureau of Investigations, and other law enforcement entities. We continued to focus on resolving investigative matters expeditiously and identifying control weaknesses that may contribute to possible fraud or abuse. We began the period with one allegation of possible wrongdoing in process. During the reporting period, we received three additional allegations. All four allegations remained in process at the end of the period.

We continued to maintain positive working liaisons with: 1) Finance Board officials, in efforts to identify and correct management problems and to clarify OIG authorities and responsibilities; 2) the Congress, in order to keep them appropriately informed; 3) external auditors, to facilitate timely and accurate reporting on Finance Board operations; and 4) the Inspector General community, to keep apprised of evolving issues that affect the Finance Board. Specifically, in November 2003, OIG proposed a new policy for management and OIG coordination to facilitate a positive working relationship. OIG

continued to monitor and provide informal input, as appropriate, into management efforts to enhance the agency's information technology function and efforts to enhance agency security. We also continued to coordinate with the General Accounting Office and other financial regulatory agencies on audits and reviews impacting the Finance Board. In addition, OIG participated in activities involving the entire Inspector General Community. As part of our affiliation with the ECIE, we continued to coordinate peer reviews of ECIE members' audit operations – a mechanism for assuring quality audits by Inspectors General. We also responded to various inquiries involving the activities of the Inspector General community.



Edward Kelley
Inspector General

*BACKGROUND ON THE FHLBANK SYSTEM, THE FINANCE BOARD,
AND THE OFFICE OF INSPECTOR GENERAL*

The Federal Home Loan Bank System (FHLBank System) was created in 1932 to promote home ownership and a strong home finance industry. Its network of 12 district Federal Home Loan Banks (FHLBanks) provide lending, deposit, and other services to member institutions. The FHLBank System has evolved from one where its membership was limited to thrift institutions and their membership was mandatory. Since the FHLBank System's inception, membership has included savings and loans, savings banks, cooperative banks, and a small number of insurance companies. As of August 1989, membership is also open to commercial banks and credit unions that meet a commitment to housing finance, as defined in law. Further, as of May 13, 2000, all members are in the system voluntarily.

The 12 FHLBanks borrow funds in the nation's credit markets to lend to the FHLBank System member institutions, which numbered 8,101 as of December 31, 2003. These institutions, in turn, use the funds for home mortgages, to meet savings withdrawal needs, and for other authorized purposes. As of December 31, 2003, the FHLBanks had outstanding loans (Advances) to member institutions totaling \$501 billion for these purposes. In addition, through its Affordable Housing Program, the FHLBank System provided approximately \$1.9 billion to active and completed projects to help house some of America's neediest families. As of December 31, 2003, a total of 386,500 housing units were approved, with approximately 64 percent of them for very-low-income households. Concurrent with affordable housing efforts, the FHLBank System has increased its efforts in overall community development through its Community Investment Program (CIP) and Community Investment Cash Advances (CICA) Programs. Total CIP/CICA lending for the life of the program is more than \$32 billion as of December 31, 2002. The Office of Finance is the fiscal agent for the FHLBank System. The Office of Finance's primary role is to manage the sale of the FHLBank System's consolidated obligations to investors and to service the FHLBank System's debt.

The Federal Housing Finance Board (Finance Board), with a fiscal year 2004 budget of approximately \$31.1 million and approximately 112 employees, is the regulator of the FHLBank System. It is an independent agency established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The Finance Board's function is to ensure that FHLBanks: 1) operate in a safe and sound manner; 2) carry out their housing finance mission; and 3) remain adequately capitalized and able to raise funds in the capital markets. The Finance Board receives its operating funds from assessments levied against the 12 FHLBanks.

The Finance Board has only indirect involvement – through the 12 FHLBanks – with the FHLBank System’s member institutions. Unlike its predecessor, the Federal Home Loan Bank Board, the Finance Board neither monitors nor examines any of the individual members of the FHLBank System. The actual monitoring, examination, and regulation of individual member institutions is left to the Office of Thrift Supervision, a separate federal government agency. The Finance Board is responsible for annually examining the 12 FHLBanks and the Office of Finance.

Approximately 89.6 percent of the Finance Board’s staff resources are dedicated, in whole or in part, to: 1) examining the safety and soundness of the 12 FHLBanks and the Office of Finance; 2) reviewing and evaluating the work of each FHLBank’s internal audit staff; 3) monitoring FHLBank System compliance with laws, regulations, policies, and procedures; 4) assessing the FHLBank System’s financial condition; 5) modeling and analyzing the implementation of financial policies; 6) maintaining and promulgating membership policies; 7) monitoring the election and appointment of FHLBank Directors; 8) collecting information on individual FHLBank policies and marketing activities; and 9) monitoring and reviewing FHLBank and members’ compliance with requirements of the Affordable Housing Program and the Community Investment Program.

The Office of Inspector General (OIG) is responsible for the conduct of audits and investigations at the Finance Board in accordance with generally accepted government auditing standards and investigative standards. OIG may also conduct audit or investigative activities at the 12 FHLBanks and other related entities when: 1) requested to do so by the Chairman; 2) necessary to obtain information on the Finance Board’s administration of its program; and 3) aimed at detecting fraud or inefficiency in the administration or operation of Finance Board programs.

AUDIT ACTIVITY

On April 5, 2003, OIG issued its annual audit plan for the period April 1, 2003 to March 31, 2004, as an Exhibit to our five-year strategic plan. During the semiannual reporting period October 1, 2003 through March 31, 2004, OIG completed five audits and discontinued an audit of the effectiveness of the examiner recruitment, selection, and retention efforts ([Table A](#) on page 9). At the conclusion of this period, OIG also had one survey in process. OIG continued to coordinate with the General Accounting Office and the Inspector General community on audits that impact the Finance Board. Specifically, OIG's audit activities included:

COMPLETED

An audit of the Finance Board's compliance with the Federal Information Security Management Act;

An audit of the Finance Board's Procurement Policies, Procedures, and Practices;

A limited review of the Finance Board's implementation of OMB Circular A-123;

A peer review of the National Credit Union Administration Office of Inspector General; and

An audit of the Federal Housing Finance Board's Fiscal Year 2003 Financial Statements.

WORK-IN-PROCESS

A survey of the proposed Finance Board Voice Over Internet Protocol telephone system.

INVESTIGATIVE ACTIVITY

The number of investigative matters processed by the Office of Inspector General during this reporting period remained the same. We had one investigative matter in process at the beginning of the reporting period and we received three additional allegations of possible wrongdoing during the period. One allegation remains under full investigation at the end of the period and three allegations remain in the preliminary investigation stage.

[Table B](#), on page 10, contains a numerical summary of investigations, allegations, preliminary inquires, and referrals.

SUMMARY OF "SECTION 5" REPORTING REQUIREMENTS

1. Significant problems, abuses, deficiencies disclosed by management and IG's recommended corrective actions [5a(1) and (2)]

None

2. Previously reported significant recommendations with incomplete corrective actions [5a(3)]

None

3. Prosecution, convictions, and referrals [5a(4)]

None

4. Reports on failure to provide information or assistance [5a(5)]

None

5. List of issued audit reports [5a(6)]

See attached [Table A](#).

6. Summary of significant reports [5a(7)]

OIG's audit of the Finance Board's compliance with the Federal Information Security Management Act of 2002 resulted in the identification of numerous information security concerns ranging from management issues to technical issues. Finance Board management began addressing many of these issues during our audit and have agreed to implement corrective actions for all of our recommendations.

OIG completed an audit of the Finance Board's procurement policies, procedures, and practices. We found that contract files in some instances did not contain adequate information from officials to provide assurance that the contracts were not improperly sole sourced. Generally, Finance Board management has taken corrective actions to address our recommendations.

7. Statistical table – audits with questioned/unsupported costs [5a(8)]

See attached [Table C](#).

8. Statistical table – audits recommending better used of funds [5a(9)]

See attached [Table D](#).

9. Summary of prior-period audits with no current management decisions [5a(10)]

None

10. Reasons for revisions of significant management decisions [5a(11)]

None

11. OIG disagreement with management decisions [5a(12)]

None

TABLE A

**LISTING OF COMPLETED AUDITS, SURVEYS, LIMITED REVIEWS,
AND EVALUATIONS**

<u>REPORT NUMBER</u>	<u>DATE COMPLETED</u>	<u>TITLE OF REPORT</u>
04-A-01-OM	March 31, 2004	Federal Housing Finance Board's Fiscal Year 2003 Financial Statements
03-A-05-OM	December 4, 2003	Limited Review of FHFB's Implementation of OMB Circular A-123
03- R-04-NCUA	December 4, 2003	Peer Review of the National Credit Union Administration Office of Inspector General
03-A-03-OM	November 24, 2003	Review of the Finance Board's procurement policies, procedures, and practices
03-A-02-OM	October 23, 2003	Audit of the Federal Housing Finance Board's information security program and systems

SUMMARY OF INVESTIGATIONS

<u>BEGINNING CASES</u>	<u>NUMBERS</u>
Cases Pending at the Beginning of Period:	
At the Finance Board.....	0
At the Department of Justice.....	1
At other agencies.....	0
<u>NEW CASES RECEIVED</u>	
Allegations Received During Current Period.....	3
<u>STATUS OF CASES</u> (as of September 30, 2003)	
Resulted in:	
Allegations Pend. Completion of Prelim. Invest/Audit.....	3
Preliminary Investigation Completed- (Cases Closed).....	0
Cases Pending Completion of Full Investigation.....	0
Full Investigation Completed- (Cases Closed).....	0
Cases Scheduled for Audit/Ltd. Rev. -(Cases Closed).....	0
Cases Pending Decision by Finance Board management.....	0
Cases Pending Decision by Dept. of Justice.....	1
Cases Pending Decision by Other Agencies.....	0
Cases Referred to FHFB Management- (Cases Closed).....	0
Referred to Other Agencies- (Cases Closed).....	0
<u>DISPOSITION</u>	
Civil.....	0
Criminal.....	0
Administrative Sanctions.....	0
Corrective Action Taken.....	0
Other (Pending/Referrals, etc.).....	0

TABLE C

**INSPECTOR GENERAL REPORTS
WITH QUESTIONED/UNSUPPORTED COSTS**

	<u>DOLLAR VALUE</u>		
	<u>NUMBER OF REPORTS</u>	<u>QUESTIONED COSTS</u>	<u>UNSUPPORTED COSTS</u>
a. For which no management decision has been made by the commencement of the reporting period.....	0	0	0
b. Which were issued during the reporting period.....	0	0	0
Subtotals (a+b).....	0	0	0
c. For which a management decision was made during the reporting period.....	0	0	0
(i) dollar value of disallowed costs....	0	0	0
(ii) dollar value of costs not disallowed.....	0	0	0
d. For which no management decision has been made by the end of the reporting period.....	0	0	0
e. Report for which no management decision was made within six months of issuance.....	0	0	0

Note: Boldface type entries reflect actual statutory language.

TABLE D

**INSPECTOR GENERAL REPORTS
RECOMMENDING THAT FUNDS BE PUT TO BETTER USE**

	<u>NUMBER OF REPORTS</u>	<u>DOLLAR VALUE</u>
a. For which no management decision has been made by the commencement of the reporting period.....	0	0
b. Which were issued during the reporting period.....	0	0
Subtotals (a+b).....	0	0
c. For which a management decision was made during the reporting period.....	0	0
(i) dollar value of recommendations that was agreed to by management.....	0	0
- based upon proposed management action.....	0	0
- based upon proposed legislation action.....	0	0
(ii) dollar value of recommendations that were not agreed to by management.....	0	0
d. For which no management decision has been made by the end of the reporting period.....	0	0
e. Reports for which no management decision was made within six months of issuance.....	0	0

Note: Boldface entries reflect actual statutory language.