

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20554



March 20, 2014

Russell A. Rau, Deputy Inspector General for Audits
Federal Housing Finance Agency
400 Seventh Street, SW
Washington, DC 20024

Dear Mr. Rau:

The attached system review report and letter of comment presents the results of our External Peer Review of the Federal Housing Finance Agency Office of Inspector General. Our review resulted in a peer review rating of pass. This means no material weaknesses were identified and there were no restrictions on the scope of the auditors work during the review. We did, however, identify a finding that did not adversely affect our opinion. The finding is detailed in the letter of comment. We believe that implementing the recommendation in the letter of comment will further enhance your quality control system.

Questions regarding the peer review may be directed to Gerald T. Grahe, Assistant Inspector General for Audits at 202-418-0474 or gerald.grahe@fcc.gov.

A handwritten signature in black ink, appearing to read "David Hunt".

DAVID HUNT
Inspector General

Attachments –

- (1) System Review Report
- (2) Letter of Comment



System Review Report

March 20, 2014

TO: Russell A. Rau, Deputy Inspector General for Audits
Federal Housing Finance Agency

We have reviewed the system of quality control for the audit organization of the Federal Housing Finance Agency, Office of Inspector General (FHFA OIG) in effect for the year ended September 30, 2013. A system of quality control encompasses FHFA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards, December 2011 revision* (GAO-12-331G), issued by the Comptroller General of the United States. FHFA OIG is responsible for designing a system of quality control and complying with it to provide FHFA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and FHFA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed FHFA OIG personnel and obtained an understanding of the nature of the FHFA OIG audit organization, and the design of the FHFA OIG system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected a sample of audit engagements to test for conformity with professional standards and compliance with the FHFA OIG's system of quality control. The engagements selected represented a reasonable cross-section of the FHFA OIG audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with FHFA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the FHFA OIG audit organization. In addition, we tested compliance with the FHFA OIG quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the FHFA OIG policies and procedures on selected

engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of non-compliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies and procedures may deteriorate.

The enclosure to this report identifies the audit scope and methodology; the engagements we reviewed; and the FHFA OIG site we visited in order to review the engagements.

In our opinion, the system of quality control for the audit organization of FHFA OIG in effect for the year ended September 30, 2013, has been suitably designed and complied with to provide FHFA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*; *pass with deficiencies*, or *fail*. FHFA OIG has received a peer review rating of *pass*.

As is customary, we issued a draft letter dated March 20, 2014 that set forth a finding that was not considered to be of sufficient significance to affect our opinion expressed in this report. Implementing the recommendation will further enhance your quality control system. The letter follows this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to FHFA OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether FHFA OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on FHFA OIG's monitoring of work performed by IPAs.



DAVID HUNT
Inspector General

Enclosure:
Scope and Methodology

SCOPE AND METHODOLOGY**Scope and Methodology**

We tested compliance with the FHFA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included 4 of 12 performance audits issued during the period October 1, 2012 through September 30, 2013 (fiscal year 2013), and semiannual reporting periods of March 31, 2012 and September 30, 2013. We also reviewed the internal quality control reviews performed by FHFA OIG.

In addition, we reviewed the FHFA OIG's monitoring of the performance audit performed by an IPA where the IPA served as the principal auditor during fiscal year 2013.

We visited the FHFA OIG office in Washington, DC.

Reviewed Performance Audits Performed by FHFA OIG:

Audit Report No.	Report Title	Issue Date
AUD-2013-004	FHFA's Oversight of the Asset Quality of Multifamily Housing Financed by Fannie Mae and Freddie	2/8/2013
AUD-2013-006	FHFA's Oversight of Federal Home Loan Bank Advances to Insurance	3/18/2013
AUD-2013-012	FHFA's Oversight of the Fannie Mae's Real Estate Owned Pilot	9/27/2013
AUD-2013-013	Effectiveness of FHFA's Office of Quality Assurance	9/30/2013

Reviewed Monitoring File of Performance Audit Contracted by the FHFA OIG:

Audit Report No.	Report Title	Issue Date
AUD-2013-003	Clifton, Larson, Allen, LLP's Audit of FHFA's FY 2012 Information Security Program	11/30/2012



Letter of Comment

March 20, 2014

TO: Russell A. Rau, Deputy Inspector General for Audits
Federal Housing Finance Agency

We have reviewed the system of quality control for the audit organization of the Federal Housing Finance Agency, Office of Inspector General (FHFA OIG) in effect for the fiscal year ended September 30, 2013, and have issued our final report thereon dated March 20, 2014, in which FHFA OIG received a rating of *pass*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The finding described below was not considered to be of sufficient significance to affect the opinion expressed in that report.

Finding: Quality Control Monitoring Can Be Enhanced

We reviewed the FHFA OIG's quality control system and found that the system is well-designed and includes many features that we consider exemplary. GAS 3.93 states that audit organizations should establish policies and procedures for monitoring of quality in the audit organization. While FHFA OIG monitors the quality of its audits in many ways, we concluded that the monitoring can be enhanced by including a full review of all GAGAS requirements in at least one selected audit annually.

The FHFA OIG's quality control and monitoring system includes:

- Audit Policies and Procedures Manual (APPM)¹,
- Office of Audits (OA) Quality Control Plans²
- Issuance of "Quality Matters" memoranda and "SOPs" to OA staff regarding particular topics,
- Quality Control Review reports issued by the Quality Assurance Team, and
- Annual Quality Monitoring Summary Reports

According to the APPM, the primary internal controls for ensuring the quality of audits, including complying with GAGAS, are the supervisory reviews of assignment documentation and the quality reviews of reports. To supplement these reviews, which

¹ The APPM was revised 9-23-2011, 9-25-2012 and 10-1-2013

² The plans covered the periods 2011-2013 and 2014-2016,

OA performs on every audit, OA will perform QCRs to ensure that its directorates perform audits in accordance with GAGAS and the APPM.

The APPM requires a checklist for documenting compliance with all GAGAS standards to be completed by the audit team. This checklist includes all the steps contained in the Council of the Inspectors General on Integrity and Efficiency (CIGIE) checklist (Appendix E) used by external peer reviewers and several additional steps to further document compliance with GAGAS and the APPM. In each of the four performance audits we reviewed, the checklist was prepared by a staff member and reviewed by the audit director. While the use of this checklist is important for documenting GAGAS compliance, an independent review of the checklist by the quality team would enhance quality monitoring.

The annual quality summary report describes the numerous quality control review reports issued by the quality team and other OA quality control efforts. However, OA did not conduct a full review of any audit using the GAGAS compliance checklist, which is inconsistent with the quality control plan. The plan covering the period October 2010 through September 2013 states that OA will perform a QCR on audit projects annually using the CIGIE review checklists Appendix D or E, starting in FY 2012. However, the first of these reviews of all GAGAS requirements for any selected audits was deferred until FY 2014. The FHFA OIG recently initiated the first of these reviews, utilizing a new checklist, as part of the Quality Control Plan for 2014 through 2016.

The CIGIE Guide for Conducting Peer Reviews provides additional guidance on the adequacy of quality control monitoring. Appendix B to the guide instructs the external peer review team to determine which selected audits were also reviewed as part of the audit organization's quality control program and compare the results of the external peer review to the internal quality monitoring review. Since the FHFA OIG did not review all GAGAS requirements in at least one selected audit report, we could not compare the results of our review with theirs, as contemplated by Appendix B.

Recommendation – FHFA OIG can enhance its quality control monitoring activities by ensuring full implementation of its quality control plan related to the review of all GAGAS requirements for selected performance audits.

Views of Responsible Official – We agree with the benefit of such reviews. In August 2013, we included the reviews as an annual QCR requirement in our QCP for fiscal years 2014-2016. Additionally, we have announced the FY2014 QCR to test that sampled audits comply with all GAS requirements using CIGIE's Appendix E. We will consider the recommendation closed upon completion of the announced and ongoing QCR, scheduled for June 30, 2014. (See also FHFA OIG letter, dated March 13, 2014, attached to this report.)

We appreciate the courtesies extended to the audit team during our review. Questions regarding this Letter of Comment should be directed to Gerald T. Grahe, Assistant Inspector General for Audits at 202-4187-0474 or gerald.grahe@fcc.gov.

A handwritten signature in black ink, appearing to read "David Hunt".

DAVID HUNT
Inspector General

Enclosure:
FHFA OIG Letter dated March 13, 2014



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

400 7th Street, S.W., Washington DC 20024

Received & Inspected

MAR 18 2014

FCC Mail Room

March 13, 2014

Mr. David Hunt
Inspector General
Federal Communications Commission
445-12th Street SW
Washington, DC 20554

Dear Mr. Hunt:

Thank you for the opportunity to review the draft Letter of Comment dated March 12, 2014, which accompanied the System Review Report on the Federal Housing Finance Agency (FHFA) Office of Inspector General's (OIG) Office of Audits (OA). We are pleased with your "pass" rating in the report based on your external peer quality assurance review of OA and are responding to the one finding in your Letter of Comment. We concur with the finding and have ongoing and completed actions that address your recommendation to take greater advantage of Appendix E, "Checklist for Review of Performance Audits," contained in the Council of the Inspectors General for Integrity and Efficiency's (CIGIE's) *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. We consider CIGIE's Appendix E to be a useful monitoring tool and have already built it into our quality control system as discussed below.

A central element of the finding concerns OA's implementation of its Quality Control Plans (QCPs). We appreciate your conclusion that OIG's quality control system is well-designed and includes many features that you consider exemplary. In our opinion, the use of a QCP to guide quality activities over the peer review period is one of those exemplary features. A benefit to planning in this manner is that we are able to provide overall governance of our efforts to ensure compliance with audit quality control system requirements. Another benefit is that we can weigh the costs and benefits of revisions to the QCP recognizing that our implementation needs to be flexible to augment or adjust quality activities in response to operating conditions.

During the peer review period ending September 30, 2013, we completed numerous quality control reviews (QCRs) included in the QCP related to compliance with *Government Auditing Standards* (GAS) that focused on key areas in the standards such as auditor independence and consideration of internal control. Additionally, we committed in the latest QCP (August 2013) to

annually conduct QCRs of individual assignments using CIGIE's Appendix E to assess overall compliance with GAS. As you point out, the FY 2014 review has already been announced.

Our system of quality control includes steps for ensuring audits are completed in accordance with GAS. For example, we expect audit teams to implement the controls designed into our audit policies to help ensure quality. In this case, in September 2012, we implemented a mandatory OA checklist for each audit assignment that covers the elements in CIGIE's Appendix E. The audit teams are key to ensuring quality in OA's work, and supervisory review of the OA checklist and other audit documentation are important parts of our system of quality control. Indeed, we are pleased that you found for all of the audits in your sample that the OA checklists were prepared by the teams and reviewed by the responsible Audit Directors.

Through our QCRs, we independently monitor that controls are adequately designed and that the audit teams have effectively implemented the controls. As previously stated, we included in our QCP and have announced the start of such a QCR to monitor compliance with GAS provisions using CIGIE's Appendix E and our related OA checklist.

Our response to the specific recommendation follows.

Recommendation – FHFA OIG can enhance its quality control monitoring activities by ensuring full implementation of its quality control plan related to the review of all GAGAS requirements for selected performance audits.

We agree with the benefit of such reviews. In August 2013, we included the reviews as an annual QCR requirement in our QCP for fiscal years 2014–2016. Additionally, we have announced the FY 2014 QCR to test that sampled audits comply with all GAS requirements using CIGIE's Appendix E. We will consider the recommendation closed upon completion of the announced and ongoing QCR, scheduled for June 30, 2014.

We appreciate the professionalism of your staff in their conduct of the external peer review.

Sincerely,



Russell. A. Rau

Deputy Inspector General for Audits