



***FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL***

Audit Plan

*April 1, 2009 – March 31, 2010
Exhibit 3 to OIG's Strategic Plan*

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Acting Inspector General*

OIG'S ANNUAL AUDIT PLAN

Foreword

This annual audit plan identifies the audit activity planned for the period April 1, 2009 through March 31, 2010. The audit activities were selected because of: 1) their relevance to the Federal Housing Finance Agency's (Finance Agency) management officials as indicated by the FHFA 2009 Performance Plan, 2) the vulnerability of the area to be audited, and 3) the statutory mandate. The planned audit activity is subject to change due to unanticipated matters of higher priority. Such changes will be communicated to the Director, as appropriate.

The results of OIG audit activity will be reported to Finance Agency management on an ongoing basis. The results of this audit activity will also be reported in the Inspector General's Semiannual report to the Congress as required by the Inspector General Act.



Edward Kelley
Acting Inspector General

OFFICE OF INSPECTOR GENERAL

Audit Plan for April 1, 2009 – March 31, 2010

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INTRODUCTION

The Office of Inspector General (OIG) provides independent, professional audits, and investigations of the financial and operational activities of the Federal Housing Finance Agency (Finance Agency). The audits are performed in accordance with generally accepted government auditing standards, as set forth in the U.S. Comptroller General's [Government Auditing Standards](#). The office conducts investigations in conformance 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)¹. The office also performs other reviews and projects upon request by the Director that may involve the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks (FHLBanks) and related entities.

For its audit responsibilities, OIG has established a plan of activities for the period April 1, 2009 – March 31, 2010, that are designed to help prevent fraud, waste, and abuse. The Audit Plan also supports the accomplishment of the FHFA 2009 Performance Plan, which focuses on three main goals:

1. Enhance supervision to ensure that Fannie Mae, Freddie Mac and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized and comply with legal requirements.
2. Promote homeownership and affordable housing and support an efficient secondary mortgage market.
3. Conserve the assets and property of Fannie Mae and Freddie Mac and enhance their ability to fulfill their mission during the conservatorship period.

Audits are selected based upon: (a) the results of our audit activities for October 27, 2008 – March 31, 2009; (b) the Finance Agency's FY 2009 Performance Plan ; (c) recommendations of agency managers and other agency stakeholders; (d) predetermined criteria – as set forth on page four; (e) the professional standards and requirements of the Comptroller General, the American Institute of Certified Public Accountants, and the Office of Management and Budget; and (f) Congressional emphasis on combating fraud, waste, and abuse.

¹ *Prior to the establishment of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) that was created under the Inspectors General Reform Act of 2008, the Investigative Committee operated under the auspices of the "PCIE" (President's Council on Integrity & Efficiency) and the "ECIE" (Executive Council on Integrity & Efficiency). Reports completed prior to the CIGIE use the PCIE & ECIE acronyms in their titles.*

This audit plan takes into consideration, but does not document, OIG resources committed to other OIG functions such as investigations and legislation/regulation reviews. The audit plan is subject to revision during the year, as priorities may shift because of: (a) unanticipated changes in the agency's strategic plan; (b) matters found during our audit work, (c) special projects requested in addition to those presently anticipated, or (d) other, circumstances which are unforeseen at this time. The plan has been developed based on the current authorized staffing level of OIG, and the timeframes noted have been broadened to accommodate a variety of other work-related activities and projects that may be requested during the period.

OVERVIEW OF AUDIT RESPONSIBILITIES AND DEFINITIONS

The term “audit” is used to describe work performed by auditors in examining financial statements, as well as work performed in reviewing compliance with applicable laws and regulations, the economy and efficiency of operations, and the effectiveness in achieving program results. These audits are prepared in accordance with generally accepted government auditing standards and vary in scope and complexity. They may be detailed and complex in scope or they may be limited reviews and inspections. A “survey” is the first phase of an audit and is performed to identify areas where more detailed audit work is warranted. The [Government Auditing Standards](#), promulgated by the U.S. Government Accountability Office, identify the following three types of audits:

Financial audits include determining whether: (a) financial information is presented in accordance with established or stated criteria; (b) the entity has adhered to specific financial compliance requirements; and (c) the entity’s internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

Economy and efficiency audits include determining: (a) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (b) the causes of any inefficient or uneconomical practices; and (c) whether the entity has complied with laws and regulations concerning economy and efficiency.

Program audits include determining: (a) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; (b) the effectiveness of organizations, programs, activities, or functions; and (c) whether the entity has complied with significant laws and regulations applicable to the program.

The [Inspector General Act of 1978](#), as amended, added a fourth dimension to auditing, by charging auditors within the Federal establishment with the responsibility for identifying potential or actual instances of waste and fraud in government activities. This responsibility is also included in the [Government Auditing Standards](#).

PROJECTS COMPLETED FROM OCTOBER 27, 2008 – MARCH 31, 2009

OIG completed the following audits and related projects:

1. An audit of the Finance Board's Fiscal Year 2008 Financial Statements was issued on November 14, 2008;
2. Former FHFB-OIG final semiannual report to the President and the Congress for the period April 1, 2008 to September 30, 2008 was issued October 31, 2008;
3. A limited review report on the Finance Board's implementation of OMB Circular A-123 was issued on November 6, 2008; and
4. Audit of the former Finance Board's parking program was issued November 24, 2008.

AUDIT RANKING CRITERIA

This year's audit plan was developed from a list of potential audit areas that were rated according to the following criteria:

1. The priority of the Director,
2. Based on the Finance Agency's strategic plan, the relative importance of the program or activity to the Finance Agency's mission,
3. The amount of Finance Agency resources committed to the program or activity,
4. The potential for fraud, waste, or abuse to occur in the program or activity,
5. Management needs identified through consultation with primary organization heads,
6. Legislative or regulatory requirements and/or Congressional, Office of Management and Budget (OMB), or Government Accountability Office (GAO) recommendations,
7. The extent of audit coverage provided by GAO, consultants or other entities,
8. The newness, changed conditions, or sensitivity of the program or activity,
9. The existence of required in-house staff expertise,
10. The adequacy of internal control systems in place for the program or activity, and
11. The extent of outstanding issues resulting from prior audit coverage or review by OIG and other audit entities.

In applying these criteria for the April 1, 2009 – March 31, 2010 audit year, we selected the audits, surveys, management reviews, and liaison activities that are represented under appropriate captions on the following pages.

PLANNED AUDIT ACTIVITIES FOR APRIL 1, 2009 – MARCH 31, 2010

Audit of Finance Agency's Examination of Fannie Mae and Freddie Mac's internal controls over high risk areas

We will conduct an audit of the Finance Agency's examination program to assess whether high risk areas have been identified in Fannie Mae and Freddie Mac operations and whether related internal controls have been examined.

Planned period of audit: January – May 2009

Audit of the Finance Agency's Monitoring of Fannie Mae and Freddie Mac's Compensation Programs

We will review FHFA 's involvement in developing and implementing the compensation programs to assess whether any elements of the programs appear excessive in their cost to Fannie Mae and Freddie Mac.

Planned period for audit: March – May 2009

Audit of the Finance Agency's compliance with the Federal Information Security Management Act (FISMA) (Contract)

We will review the IT office's security measures for the agency to assess the agency's vulnerability to information loss or theft.

Planned period for audit: May – September 2009

Audit of FHFA compliance with Section 522 of the Consolidated Appropriations Act of 2005 (Privacy safeguards) (contract)

We will contract with a firm with experience in conducting privacy reviews. The objectives of the audit will be to (a) assess the agency's use of information in an identifiable form, (b) evaluate the privacy and data protection procedures of the agency, and (c) recommend strategies and specific steps to improve privacy and data protection management.

Planned period for audit: June – September 2009

Audit of the Finance Agency's Decision to place Fannie Mae and Freddie Mac into Conservatorship

We will review FHFA's justification for placing Fannie Mae and Freddie Mac for placing Fannie Mae and Freddie Mac into Conservatorship to assess its factual accuracy and to determine if other factors impacted the decision.

Planned period for audit: July – November 2009

Audit of the Finance Agency's Monitoring of the FHLBanks' Collateral (Contract)

We will contract with a certified public accounting firm to audit the Finance Agency's examination and supervisory procedures for ensuring the adequacy of collateral at the FHLBanks.

Planned period for audit: August – November 2009

Audit of the cost effectiveness, efficiency and effectiveness of FHFA's purchase of IT equipment from ATS

We will review the controls and procedures in place to ensure that the IT equipment purchased is needed and not already in FHFA's inventory.

Planned period for audit: August –October 2009

Audit of Adequacy of Physical Security over Agency Assets (contract)

We will conduct an audit of the effectiveness of agency policies and procedures for safeguarding agency assets.

Planned period for audit: August – October 2009

Limited Review of the Finance Agency's implementation of OMB Circular A-123 (contract)

To comply with requirements of OMB Circular A-123, the Finance Agency is required to annually assess and report on the overall adequacy and effectiveness of management controls within the

agency. We will conduct a limited review of the process used to assess the agency's internal control system.

Planned period for audit: September-October 2009

Audit of Budgeting for IT Equipment and Software (contract)

We will conduct an economy and efficiency audit of the budgeting process for IT equipment. We will review the process for identifying the IT needs of the FHFA and controls over how the agency plans to satisfy its IT needs.

Planned period for audit: November 2009 – January 2010

Review of FHFA's Performance Report on progress toward accomplishing the agency's Strategic Plan performance measures

We will annually review the FHFA's performance report to assess how well the agency did in meeting its various performance goals.

Planned period for audit: December 2009 – February 2010

Audit of the Thoroughness of Examinations in identifying safety and soundness issues-Division of Enterprise Regulation

We will conduct an operational audit to determine how the scope of examinations is determined and whether the method of scoping examinations has resulted in the early identification and resolution of safety and soundness issues.

Planned period for audit: December 2009 –March 2010

Audit of Effectiveness of IT Function in Meeting Needs of FHFA Offices (contract)

We will assess the effectiveness of the IT function in responding to the needs of various FHFA offices to identify any areas which need improvement.

Planned period for audit: February 2010 – April 2010

Audit of the Effectiveness of FHFA's Oversight of FHLBank Governance Activities-Division of FHLBank Regulation

We will review the controls in place to ensure that Governance Activities are adequately reviewed.

Planned period for audit: February 2010 – May 2010

Audit of the Effectiveness of FHFA's Oversight of Enterprise Governance Activities-Division of Enterprise Regulation

We will review the controls in place to ensure that Governance Activities are adequately reviewed.

Planned period for audit: March 2010 – June 2010

Follow-up on Completed Audits

We will follow-up with Finance Agency managers to determine the extent to which corrective actions have been taken on audit recommendations.

Planned period for follow-up: Quarterly

Audit of Ratified and Terminated Contracts in Excess of \$10,000

We will audit all contracts terminated/ratified during the period April 1, 2007 through March 31, 2008 to assess whether the Finance Agency received services and/or goods consistent with the amounts paid to contractors.

Planned period for audit: As appropriate

LEGISLATED REPORTING REQUIREMENTS

Semiannual Reports to Congress

In accordance with the *Inspector General Act of 1978*, as amended (IG Act), we will prepare and transmit to the Congress semiannual reports on the activities of the Inspector General Office at the Finance Agency. We will prepare, no later than April 30, 2009 and October 31, 2009, semiannual reports that summarize OIG activities during the immediately preceding six-month periods ending March 31, 2009 and September 30, 2009. OIG semiannual reports will be furnished to the Director of the Finance Agency and in accordance with the *IG Act*, within 30 days of receiving the reports; the Director is required to transmit the report and certain other information to the appropriate committees and subcommittees of the Congress.

Planned period for project: April and October 2009

SPECIAL PROJECTS

Because of our auditing, accounting, and operational expertise and familiarity with the operations of the entire Finance Agency, the Office of Inspector General is available to perform special projects and offer advice as requested by the Director and Finance Agency management. From time to time, matters come to our attention during the year that are not anticipated when the audit plan is established. Such matters may be documented internally for consideration in a scheduled audit. If the matter does not relate to a scheduled audit, we determine if immediate action is required, and if such action will significantly alter our scheduled work. The Director will be advised of changes to the audit plan that result from unscheduled work.