



# Audit Report



OIG-12-010

Management Letter for the Audit of the Federal Financing Bank's  
Fiscal Years 2011 and 2010 Financial Statements

November 15, 2011

Office of  
Inspector General  
Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 15, 2011

**MEMORANDUM FOR GARY BURNER, CHIEF FINANCIAL OFFICER  
FEDERAL FINANCING BANK**

**FROM:** Michael Fitzgerald  
Director, Financial Audits

**SUBJECT:** Management Letter for the Audit of the Federal Financing  
Bank's Fiscal Years 2011 and 2010 Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Federal Financing Bank's (FFB) Fiscal Years 2011 and 2010 financial statements. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of FFB as of September 30, 2011 and 2010, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, KPMG LLP issued and is responsible for the accompanying management letter that discusses a matter involving internal control over financial reporting and its operation that was identified during the audit but was not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP's letter and related documentation and inquired of its representatives. Our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789 or a member of your staff may contact Shiela Michel, Manager, Financial Audits, at (202) 927-5407.

Attachment



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

November 14, 2011

Inspector General, U.S. Department of the Treasury, and  
the Board of Directors, Federal Financing Bank:

In planning and performing our audit of the Federal Financing Bank's (the Bank) financial statements as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we considered the Bank's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

During our audit, we noted a certain matter involving internal control that is presented for your consideration. This comment and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control and are summarized in Exhibit I. We also provided in Exhibit II the status of the comments included in our letter arising from the fiscal year 2010 audit.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Bank gained during our work to make comments and suggestions that we hope will be useful to you.

This communication is intended solely for the information and use of the Bank's management, the U.S. Department of the Treasury's Office of Inspector General, the U.S. Government Accountability Office, the Office of Management and Budget, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

**Federal Financing Bank  
Comment and Recommendations  
September 30, 2011**

**Fair Value of the Federal Credit Reform Act Borrowings**

In fiscal year 2011, management consolidated the various Fortran, SQL, and Excel processes used in fiscal year 2010 to calculate the fair value of borrowings into one automated process within Fortran. The audit identified that during the consolidation, the program code used to determine the fair value of borrowings used to fund certain guaranteed loans that require the guaranteeing federal agencies to comply with the Federal Credit Reform Act (FCRA) omitted a liquidity premium.

As a result of our finding, management added a liquidity premium of 25 basis points to the program code and reran the fair value calculation for the borrowings used to fund certain guaranteed loans that require the guaranteeing federal agencies to comply with the FCRA. The fair value calculated after the liquidity premium was added was \$192,366,428.85 less than the originally calculated fair value. As a result, the borrowing fair value note disclosure was adjusted downward by \$192,366,428.85.

***Recommendations***

We recommend that management:

- 1) Implement controls to ensure that all inputs for the fair value calculations are approved and verified.
- 2) Check the accuracy of the automated calculations by reperforming one fair value calculation for each type of transaction that is included in the note disclosure (e.g., loan with no call option, callable loan with options that has not reached the first call date, callable loan with options that has aged past the first available call date, borrowing with Treasury, borrowing with Office of Personnel Management, borrowing with Treasury used to fund certain guaranteed loans that require the guaranteeing federal agencies to comply with the FCRA). This could be done as part of the review and approval of the note disclosures.

***Management's Response***

Management concurs with the finding and recommendations.

**Federal Financing Bank  
Status of Prior Year Comments  
September 30, 2011**

<b>Prior Year Comment</b>	<b>Current Year Status</b>
1. Unsuccessful Login Attempts	This condition has been corrected in fiscal year 2011.
2. Password Policy	This condition has been corrected in fiscal year 2011.