



# Audit Report



OIG-11-022

Management Letter for Fiscal Year 2010 Audit of the  
Federal Financing Bank's Financial Statements

November 12, 2010

## Office of Inspector General

### Department of the Treasury

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information on pages 2 and 3 requiring protection from public dissemination has been redacted from this report in accordance with Exemption 2 of the Freedom of Information Act, 5 U.S.C. Section 552.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 12, 2010

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

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

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

I am pleased to transmit the attached management letter in connection with the audit of the Federal Financing Bank's (FFB) Fiscal Year 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, 2010, and for the year 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 matters involving internal control over financial reporting and its operation that were identified during the audit but were 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 10, 2010

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, 2010, 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 certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. We also provide in Exhibit II the status of the comment and recommendations included in our letter arising from the fiscal year 2009 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  
Comments and Recommendations  
September 30, 2010**

**1. Unsuccessful Login Attempts**

The Bank's financial system does not lock user accounts after three unsuccessful user logon attempts in a [REDACTED] period, as required by the U.S. Department of the Treasury's (Treasury) Departmental Offices (DO) 910, *Information Technology Security Policy Handbook*. If user accounts are not locked after a set number of failed logon attempts, unauthorized users may make repeated logon attempts to potentially gain unauthorized access.

***Recommendation***

We recommend that the Bank modify the financial system security configuration to lock user accounts in accordance with Treasury information technology policy after three failed logon attempts.

***Management's Response***

Management concurs with the finding and recommendation. Management indicated that they will configure the financial system to temporarily lock out users after failed logon attempts in fiscal year 2011. An email notification of the lock out will be automatically provided to appropriate Bank personnel. We did not audit management's response, and, accordingly, we express no opinion on it.

**2. Password Policy**

The Bank's financial system was not properly configured to check password expirations and force users to change passwords every [REDACTED] in accordance with the Bank's password policy. During our testing, we noted that two of the thirty users tested had not changed their password in over [REDACTED]. Improper password configuration increases the risk for an unauthorized user to gain access to the system, which could compromise data integrity.

***Recommendation***

We recommend that Bank management conduct either manual or automated monthly reviews of user accounts and disable user accounts that have not changed their passwords within sixty days.

***Management's Response***

Management concurs with the finding and recommendation. Management indicated that they will implement a process to monitor the changing of passwords in fiscal year 2011. We did not audit management's response, and, accordingly, we express no opinion on it.

**Federal Financing Bank  
Status of Prior Year Comment  
September 30, 2010**

<b>Prior Year Comment</b>	<b>Current Year Status</b>
1. Interest Credits on the Cushion of Credit Accounts	This comment has been corrected.