



Audit Report



OIG-10-008

Management Letter for Fiscal Year 2009 Audit of the
Federal Financing Bank's Financial Statements

November 12, 2009

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 12, 2009

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

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for Fiscal Year 2009 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 2009 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, 2009, 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 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

November 9, 2009

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

We have audited the financial statements of the Federal Financing Bank (the Bank) for the year ended September 30, 2009, and have issued our report thereon dated November 9, 2009. In planning and performing our audit of the financial statements of the Bank, 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 matter involving internal control that we present for your consideration. This finding and related recommendations are summarized in Exhibit I. They have been discussed with the appropriate members of management, and are intended to improve internal control or result in other operating efficiencies.

We also provide in Exhibit II the status of the findings and recommendations included in our letter arising from the fiscal year 2008 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 deficiencies 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.

The Bank's response to our finding and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report 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
Finding and Recommendations**

September 30, 2009

Interest Credits on the Cushion of Credit Accounts

In prior years, the Federal Financing Bank (Bank) purchased certificates of beneficial ownership (i.e., loans reported as loans receivable on the statement of financial position) from the Rural Utilities Service (RUS), a component of the U.S. Department of Agriculture. RUS used the funds received from the Bank to issue loans to nonfederal entities, specifically private utility companies. In 1987, Congress passed legislation (i.e., 7 USC Sec. 940c - Cushion of Credit Payments Program) that required RUS to develop and promote a program to encourage private utility companies to voluntarily make deposits into cushion of credit accounts established within RUS. The legislation also indicated that a private utility company may reduce the balance of its cushion of credit account only if the reduction is used to make scheduled payments on loans received from RUS. In accordance with the legislation, the private utility companies accrue interest at a rate of 5% per annum or the weighted average rate of the certificates of beneficial ownership on cash deposited into the cushion of credit accounts with RUS. The legislation also indicated that RUS shall receive an interest credit from the Bank equal to the amount of interest RUS pays to the private utility companies.

RUS calculates the interest credit on a spreadsheet based on the daily cash balances maintained in the credit of cushion accounts and provides the calculation spreadsheet to the Bank monthly. The Bank reviews, recalculates, and records the interest credit in the Bank's general ledger on a monthly basis. In our review of the Bank's interest credit calculation we noted the following:

- The Bank did not adequately review the June/July monthly calculation spreadsheets submitted by RUS, as it did not compare the July beginning cash balance to the June ending cash balance and thus did not identify that the June ending cash balance used in the calculation was understated by more than \$135 million. The interest credit calculation for the month of June did not take into account deposit and withdrawal activity that occurred on the last day of the month and RUS did not include the effects of such activity in the July calculation.
- The Bank did not request adequate supporting documentation from RUS to perform an effective review of RUS's monthly submission of the credit of cushion interest calculation, as the Bank did not request the Government-Wide Accounting statements to support the cash balance and monthly activity used in the calculation.

As a result, the interest credit for the month of June was understated by approximately \$43 thousand. Ineffective review of the interest credit calculations could lead to overstatement or understatement of the Bank's interest income.

Recommendations

We recommend that the Bank strengthen the review of the interest credit calculation, as follows:

- Request RUS to include supporting documentation, such as the Government-Wide Accounting statements, with RUS's monthly submission of the interest credit calculation to the Bank.

Exhibit I

- Compare all data inputs from the interest credit calculation to supporting documentation, including the Government-Wide Accounting statements.
- Compare the current month's beginning deposit balance to the prior month's ending deposit balance included in the interest credit calculation.

Management's Response

Management concurs with the finding and recommendations. Management indicated that a process is currently under way to strengthen the review of the interest credit calculation and such process should be completed in fiscal year 2010.

**Federal Financing Bank
Status of Prior Year Findings**

September 30, 2009

Prior Year Findings	Current Year Status
1. System Development Methodology and Configuration Management Plan	This comment has been corrected.
2. Outdated LMCS Oracle Database Management System	This comment has been corrected.
3. Password Requirements	This comment has been corrected.