



Office of Inspector General
Pension Benefit Guaranty Corporation

February 28, 2017

The Honorable Laura S. Wertheimer, Inspector General
Office of Inspector General
Federal Housing Finance Agency
400 7th Street, S.W., Suite 3.201
Washington, DC 20024

SUBJECT: External Peer Review Report on the Federal Housing Finance Agency
Office of Inspector General Audit Organization

Dear Inspector General Wertheimer:

Enclosed is the External Peer Review Report on the Federal Housing Finance Agency Office of Inspector General audit organization conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Your response to the draft is included as Enclosure 2.

We appreciate the cooperation and courtesy extended to our staff during the review.

Very truly yours,

Robert A. Westbrooks
Inspector General

Enclosures



Office of Inspector General
Pension Benefit Guaranty Corporation

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Office of Inspector General
Federal Housing Finance Agency
400 7th Street, S.W., Suite 3.201
Washington, DC 20024

SUBJECT: External Peer Review Report on the Federal Housing Finance Agency Office of
Inspector General Audit Organization

Dear Inspector General Wertheimer:

We have reviewed the system of quality control for the audit organization of Federal Housing Finance Agency Office of Inspector General (FHFA OIG) in effect for the 18-month period ended March 31, 2016. 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 with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. FHFA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide FHFA OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements 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 the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. 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 FHFA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and administrative files to test for conformity with professional standards and compliance with FHFA OIG's system of quality control. The audits selected represented a reasonable cross-section of FHFA OIG audit organization, with emphasis on higher-risk audits. Prior to

concluding the peer 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 FHFA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of FHFA OIG's policies and procedures on selected audits. 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 noncompliance 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 or procedures may deteriorate.

Enclosure 1 to this report identifies FHFA OIG offices that we visited and the audits that we reviewed.

In our opinion, the system of quality control for the audit organization of FHFA OIG in effect for the 18-month period ended March 31, 2016, 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. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. FHFA OIG has received an External Peer Review rating of *pass*.

As is customary, we have issued a letter dated February 28, 2017, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in 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 CIGIE related to FHFA OIG's monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits 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

Inspector General Wertheimer
External Peer Review Report on the FHFA OIG Audit Organization
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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.

Enclosure 2 to this report includes FHFA OIG's response to the above opinion.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert A. Westbrook". The signature is written in a cursive style with a large initial "R".

Robert A. Westbrook
Inspector General

Enclosures (2)

Scope and Methodology

Enclosure 1

We tested compliance with Federal Housing Finance Agency OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 2 of 4 audit reports issued during the period October 1, 2014 through March 31, 2016. Additionally, we reviewed 1 terminated audit and 1 closed-out audit survey.¹ We also reviewed the 2014 and 2015 internal annual quality control monitoring summary reports completed by FHFA OIG.

Further, we reviewed FHFA OIG's monitoring of audits performed by IPAs where the IPA served as the auditor during the period October 1, 2014 through March 31, 2016. FHFA OIG contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited the FHFA OIG office located in Washington D.C. to interview staff and obtain information.

Reviewed Audits Performed by the FHFA OIG:

Report No.	Report Date	Report Title
AUD-2016-002	3/28/2016	Review of FHFA's Tracking and Rating of the 2013 Scorecard Objective for the New Representation and Warranty Framework Reveals Opportunities to Strengthen the Process
CIGFO-2015-001	7/27/2015	Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System

¹ Audit surveys represent work performed prior to initiation of an audit to, in part, familiarize auditors with the structure and organization of the unit administering the audit topic, policies and procedures related to the audit topic, and previous audits performed regarding the topic. This provided information regarding significant risks, control framework, compliance requirements and general background on the audit topic. The audit organization used the information to determine the need to initiate an audit. FHFA OIG issued a survey-out memorandum if, based on survey results, it determined not to proceed with an audit.

Reviewed Audits Projects Terminated by FHFA OIG Before Report Issuance:

Audit Termination Memorandum No.	Action Date	Assignment Title
AUD-2015-001	12/12/2014 ²	FHFA's Oversight of Fannie Mae's Controls Over the Qualification and Assignment of Real Estate Owned (REO) Brokers

Reviewed Audits Surveyed Out by FHFA OIG Before Report Issuance:

Survey - Out Memorandum No.	Action Date	Assignment Title
AUD-2015-006	1/21/2015	FHFA's Oversight of Common Securitization Platform Contract Awards and Contract Administration Activities

Reviewed Monitoring Files of FHFA OIG for Contracted Audits:

Report No.	Report Date	Report Title
AUD-2015-002	9/9/2015	Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program – 2015

² Memorandum AUD-2016-001 withdrew termination memorandum AUD-2015-001 and stated no reliance should be placed on the work included as part of AUD 2015-001 because of noncompliance with GAGAS.



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

February 27, 2017

Mr. Robert A. Westbrook
Inspector General
Pension Benefit Guaranty Corporation
1200 K Street NW, Suite 470
Washington, DC 20005

Dear Mr. Westbrook:

Thank you for the opportunity to comment on your draft System Review Report on the External Peer Review conducted by Pension Benefit Guaranty Corporation Office of Inspector General (PBGC OIG) of the Federal Housing Finance Agency Office of Inspector General Audit Organization. We have no comment on the draft System Review Report.

Generally Accepted Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) require a peer review to be conducted on a regular basis for the audit organization of each federal Office of Inspector General (OIG) to assist each OIG in fulfilling its oversight responsibilities and in complying with statutory requirements, professional standards, and established policies and procedures. In response to concerns raised by stakeholders, we asked CIGIE to expedite our regularly scheduled external peer review. PBGC OIG was assigned to conduct that external peer review and its audit staff moved expeditiously to conduct and complete it. We are most appreciative of PBGC OIG's professional and thorough efforts.

We are pleased to receive an External Peer Review rating of *pass*. Pursuant to the September 2014 CIGIE *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*, a *pass* rating issued from an external peer review is the highest rating that can issue and that *pass* rating should only be issued:

[W]hen the review team concludes that the system of quality control for the reviewed OIG audit organization has been suitably designed and complied with to provide the organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The team did not identify deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies or significant deficiencies, or recommendations.

The *pass* rating from the external peer review validates that our system of quality control was suitably designed and provides reasonable assurance that our audits will be performed and our audit results will be reported in conformity with applicable professional standards. FHFA-OIG

Mr. Robert A. Westbrooks
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has been and continues to be committed to maintain an effective system of quality control and to work continually to comply with applicable professional standards and its internal policies and procedures.

Sincerely,



Laura S. Wertheimer
Inspector General