



441 G St. N.W.
Washington, DC 20548

Accessible Version

April 30, 2025

The Honorable William J. Pulte
Director, Federal Housing Finance Agency

Federal Housing Finance Agency: Improvements Needed in Certain Internal Controls over Financial Reporting

Dear Director Pulte:

On November 15, 2024, we issued our auditor's report on the results of our audits of the fiscal year 2024 consolidated financial statements of the Federal Housing Finance Agency (FHFA) and of FHFA's internal control over financial reporting relevant to its financial statements as of September 30, 2024.¹ As we reported in connection with our audits, although certain controls could be improved, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024. Those controls provided reasonable assurance that FHFA would prevent, or detect and correct, material misstatements of the agency's consolidated financial statements on a timely basis.

However, we identified a deficiency in FHFA's controls over accounts payable accruals that represents a new significant deficiency in FHFA's internal control over financial reporting.² We also identified other deficiencies in FHFA's internal controls that we do not consider to be material weaknesses or significant deficiencies but warrant the attention of FHFA management. We are making four new recommendations to address these deficiencies.

This report also presents the results of our follow-up on the status of FHFA's corrective actions to address nine recommendations related to internal control over financial reporting deficiencies identified in our prior reports that remained open as of September 30, 2023.³ FHFA completed corrective actions to address four of the nine recommendations and was in the process of taking

¹GAO, *Financial Audit: Federal Housing Finance Agency's FY 2024 and 2023 Financial Statements*, [GAO-25-107454](#) (Washington, D.C.: Nov. 15, 2024).

²A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

³GAO, *Management Report: Federal Housing Finance Agency Should Improve Controls over Personnel and Payroll Information*, [GAO-23-106487](#) (Washington, D.C.: Apr. 19, 2023); *Federal Housing Finance Agency: Improvements Needed in Controls over Management Reviews and Information Systems Access*, [GAO-24-107219](#) (Washington, D.C.: May 9, 2024); and *Federal Housing Finance Agency Office of Inspector General: Improvements Needed in Review of Procedures for Payroll Accounting*, [GAO-24-107430](#) (Washington, D.C.: May 9, 2024).

corrective actions for the remaining five recommendations. This report is intended for FHFA management's use.

Objectives, Scope, and Methodology

The objectives of this report are to describe (1) deficiencies in FHFA's internal control over financial reporting that we identified during our fiscal year 2024 audits along with related recommendations and (2) the status of FHFA's corrective actions to address recommendations related to internal control over financial reporting deficiencies reported in our prior reports that remained open as of September 30, 2023.

As part of our fiscal year 2024 audits to evaluate FHFA internal control over financial reporting, we reviewed FHFA policies and procedures; interviewed FHFA management and staff; observed controls in operation; and tested controls to determine whether they were designed, implemented, and operating effectively. During our work, we communicated our findings to management. A full discussion of our scope and methodology is included in our auditor's report on FHFA's fiscal year 2024 consolidated financial statements.⁴

We performed our fiscal year 2024 audits in accordance with U.S. generally accepted government auditing standards. We believe that our audits provide a reasonable basis for our findings and recommendations in this report.

New Internal Control Deficiencies Identified During the Fiscal Year 2024 Audits

During our fiscal year 2024 audits, we identified a deficiency in FHFA's controls over accounts payable accruals that represents a new significant deficiency in FHFA's internal control over financial reporting. Specifically, we found that FHFA's internal controls, as of September 30, 2024, did not timely prevent, or detect and correct, errors in its accounts payable accruals. We also identified internal control deficiencies related to FHFA's accounting for leases that we did not consider to be a material weakness or significant deficiency, but that nonetheless warrant FHFA management's attention.

FHFA Lacks Clear Guidance for the Determination and Supervisory Review of Accounts Payable Accruals

Federal accounting standards require that entities recognize amounts owed for goods and services received during the reporting period as accounts payable.⁵ FHFA reports accounts payable accruals, which amounted to approximately \$13 million as of September 30, 2024, on its balance sheet.

Condition. FHFA has documented procedures for its personnel to determine and record year-end accounts payable accruals. During our audits, we found multiple errors in FHFA's year-end accounts payable accruals. In one instance, FHFA recorded an accounts payable accrual for \$300,000 instead of \$2.3 million—underreporting accounts payable and related expenses by \$2 million—based on an inaccurate estimate. In another instance, FHFA incorrectly accrued \$1.9 million of accounts payable in fiscal year 2024, even though FHFA did not receive those services until fiscal year 2025—thus overreporting fiscal year 2024 accounts

⁴[GAO-25-107454](#).

⁵Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*.

payable and related expenses by \$1.9 million. While the net effect of these errors on FHFA's September 30, 2024, accounts payable line item was less than \$100,000, FHFA's internal controls did not prevent, or timely detect and correct, errors totaling almost \$4 million.

Criteria. *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risk and implement control activities through policies. Management designs control activities to reasonably assure that transactions are recorded accurately and timely and that management performs reviews at the functional or activity level.⁶

Cause. FHFA's written procedures to determine and record year-end accounts payable accruals are not sufficiently clear as to how to determine the appropriate accrual amount, who is ultimately responsible for determining the appropriate accrual amount, and the assignment of roles and responsibilities to both contracting and accounting staff. In addition, while these written procedures require an accounting supervisor to perform a review, the procedures do not contain sufficient guidance concerning the level of detail needed for the supervisor to identify potential errors.

Effect. Without clear guidance for its personnel to determine appropriate accounts payable accruals and for supervisors to effectively review these amounts, FHFA increases the risk of misstating its financial statements. These deficiencies represent a significant deficiency in FHFA's internal control over financial reporting.

Recommendations for Executive Action. The Director of FHFA should update FHFA's documented procedures to provide sufficiently clear guidance for determining year-end accounts payable accruals, including clearly defining roles and responsibilities.
(Recommendation 1)

The Director of FHFA should update FHFA's documented procedures to provide sufficiently detailed guidance for supervisory review of year-end accounts payable accruals.
(Recommendation 2)

FHFA Lacks Guidance for Communication Between Its Accounting Office and Business Units and Lacks Clear Guidance for Lease Valuation Support

FHFA's accounting office, the Office of Budget and Financial Management,⁷ is responsible for preparing the agency's financial statements and implementing policies and procedures to comply with accounting standards. The accounting office coordinates with various business units within FHFA to obtain the information needed for financial reporting. Changes to federal financial accounting standards governing leases took effect in fiscal year 2024.⁸ As the accounting office carried out its implementation procedures, it determined that the lease for its headquarters building was subject to the new standard. During fiscal year 2024, FHFA's facilities management office, the Office of Facilities and Operations Management, also renegotiated the lease for its headquarters building.

⁶GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

⁷During fiscal year 2025, FHFA renamed this office to the Office of the Chief Financial Officer.

⁸Statement of Federal Financial Accounting Standards (SFFAS) No. 54, *Leases*.

Condition. During our audits, we found that the accounting office encountered difficulties in accurately valuing its headquarters lease in accordance with the new federal accounting standard. While the accounting office developed documented procedures for calculating lease values in accordance with the new federal accounting standard, these procedures do not contain sufficiently detailed guidance on the underlying information FHFA needed to support these calculations.

In addition, the accounting and facilities management offices did not effectively communicate with each other regarding the new lease accounting standard and lease renegotiation. This lack of effective communication was particularly important because the renegotiated headquarters lease contract contained various options from which FHFA could select. To accurately value the lease and reflect it in the financial statements, the accounting office needed to know which options management intended to select. Because the accounting office did not have this information and clearly document it, FHFA's initial valuation of its headquarters building was not complete.

Criteria. *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risk and implement control activities through policies.⁹ Management designs control activities to reasonably assure that appropriate documentation of transactions and internal control.

Cause. FHFA does not have documented policies requiring communication between the accounting office and FHFA business units, such as the facilities management office, to obtain information that may be needed for preparing FHFA's financial statements. In addition, the procedures it developed for valuing its leases in accordance with the new federal lease accounting standard do not clearly describe the documentation that the accounting office is required to maintain to support FHFA's calculations.

Effect. The lack of effective communication and coordination, and lack of clear guidance on how to support its lease calculations, complicated FHFA's efforts to account for its headquarters building lease in accordance with the new federal accounting standard and accurately present information in its financial statements. While we determined that FHFA's reported fiscal year 2024 lease information was materially correct and in accordance with the new standard, FHFA will continue to face challenges to properly report and support the information presented in its financial statements without effective internal communication between the accounting office and other business units, as well as clear guidance on how to document the information. This is especially critical when there is a change to financial accounting requirements.

Recommendations for Executive Action. The Director of FHFA should develop and document policies and procedures requiring the accounting office to coordinate with applicable FHFA business units to reasonably assure that the accounting office has the necessary information to meet financial accounting or reporting requirements. (Recommendation 3)

The Director of FHFA should update FHFA's documented procedures to provide sufficiently detailed guidance for documentation requirements to support FHFA's lease valuations. (Recommendation 4)

⁹GAO-14-704G.

Status of Corrective Actions FHFA Took to Address Recommendations from Prior Reports

Our fiscal year 2024 audit included following up on the status of FHFA's corrective actions to address recommendations related to internal control over financial reporting deficiencies identified in our prior reports that remained open as of September 30, 2023. These recommendations related to personnel and payroll information, reviews of consolidated financial statements, and information systems access. FHFA completed corrective actions to address four of the nine recommendations and was in the process of taking corrective actions for the remaining five recommendations. See table 1 for a summary of the status of corrective actions to address these recommendations as of September 30, 2024.

Table 1: Status of FHFA's Corrective Actions to Address Recommendations Related to Internal Control over Financial Reporting Deficiencies Identified in Prior Reports

No.	GAO source report and recommendation number	Recommendation and corrective actions taken as of September 30, 2024	Fiscal year initially identified	Status
1	GAO-23-106487 , #23-01	<p>The Director of the Federal Housing Finance Agency (FHFA) should ensure that the appropriate management officials undertake a detailed review of existing personnel records to identify and correct errors.</p> <p>Actions taken:</p> <p>According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2024. During our fiscal year 2024 audit, we determined that FHFA reviewed approximately 88 percent of existing personnel records and corrected the issues it identified through this review.</p>	2022	Open
2	GAO-23-106487 , #23-02	<p>The Director of FHFA should ensure that the appropriate management officials develop and implement a process to monitor controls over the recording of benefits information for employees with prior federal service to reasonably assure that these controls are operating as designed.</p> <p>Actions taken:</p> <p>According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2024. FHFA stated it conducted reviews of benefits information of new employees within 30 days of receiving benefits information from prior federal service. However, it had not begun periodic reviews to monitor controls over this process because it had not fully completed its review of existing personnel records.</p>	2022	Open

No.	GAO source report and recommendation number	Recommendation and corrective actions taken as of September 30, 2024	Fiscal year initially identified	Status
3	GAO-23-106487 , #23-03	<p>The Director of FHFA should ensure that the appropriate management officials develop a process to periodically verify that gross cost information in FHFA's financial statements is supported by detailed employee time charges.</p> <p>Actions taken:</p> <p>According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2024. FHFA stated that it is working to create procedures for the periodic review of employee time charges.</p>	2022	Open
4	GAO-23-106487 , #23-04	<p>The Director of FHFA should ensure that appropriate management officials develop a process to reasonably assure that recorded cash award payments match what management authorized as documented on the approved Standard Form (SF) 52.</p> <p>Actions taken:</p> <p>During our fiscal year 2024 audit, we (1) determined that FHFA updated its documented procedures to clarify award processing steps, (2) did not identify any errors from testing a statistical sample of payroll transactions that included award transactions as documented on the SF-52, and (3) determined that there was evidence that FHFA performed periodic reviews to evaluate the accuracy of its award actions.</p>	2022	Closed
5	GAO-24-107219 , #24-01	<p>The Director of FHFA should direct the appropriate management officials to develop sufficiently detailed guidance for how FHFA personnel should review accounting information that FHFA's Office of Inspector General (OIG) provides for inclusion in FHFA's consolidated financial statements, to detect and timely correct misstatements.</p> <p>Actions taken:</p> <p>During our fiscal year 2024 audit, we determined that FHFA documented and implemented procedures to provide detailed guidance to its personnel on reviewing and approving FHFA OIG's financial statements and accounting information before FHFA includes them in its consolidated financial statements. We did not identify any material exceptions during our review of FHFA's fiscal year 2024 financial statements.</p>	2023	Closed

No.	GAO source report and recommendation number	Recommendation and corrective actions taken as of September 30, 2024	Fiscal year initially identified	Status
6	GAO-24-107219 , #24-02	<p>The Director of FHFA should direct the appropriate management officials to update existing policy for obtaining Federal Personnel and Payroll System (FPPS) access to clearly describe (1) the process and procedures that staff should follow to request access, (2) the nature and extent of access rights appropriate for each employee's position, and (3) the documentation FHFA should maintain as evidence that the designated approving official granted the access.</p> <p>Actions taken:</p> <p>According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2024. During fiscal year 2024, FHFA updated its procedures for requesting and documenting management approval of FPPS access. However, our fiscal year 2024 audit continued to find instances where FHFA did not document management approval before granting employees access to FPPS.</p>	2023	Open
7	GAO-24-107219 , #24-03	<p>The Director of FHFA should direct the appropriate management officials to develop monitoring procedures to reasonably assure that FHFA personnel follow existing procedures to timely remove information systems access for separated employees.</p> <p>Actions taken:</p> <p>According to FHFA, its efforts to address this recommendation were ongoing as of September 30, 2024. FHFA stated that it began working to better monitor and remove system access from separated employees during fiscal year 2024. However, our fiscal year 2024 audit continued to find instances where FHFA did not timely remove access for separated employees.</p>	2023	Open

No.	GAO source report and recommendation number	Recommendation and corrective actions taken as of September 30, 2024	Fiscal year initially identified	Status
8	GAO-24-107430 , #OIG-24-01	<p>The FHFA Inspector General should direct the appropriate FHFA OIG management officials to develop sufficiently detailed guidance for how FHFA OIG staff should review accounting information it provides to FHFA, for inclusion in FHFA's consolidated financial statements, to prevent misstatements.</p> <p>Actions taken:</p> <p>During our fiscal year 2024 audit, we determined that FHFA OIG documented and implemented procedures to provide more detailed guidance to its personnel on reviewing and approving accounting information it provides to FHFA for inclusion in the FHFA consolidated financial statements. The updated procedures include the requirement for FHFA OIG personnel to perform a variance analysis and to research and identify the reason for any unexpected variances. We did not identify any material exceptions during our review of fiscal year 2024 accounting information that FHFA OIG provided to FHFA for consolidation into FHFA's financial statements.</p>	2023	Closed
9	GAO-24-107430 , #OIG-24-02	<p>The FHFA Inspector General should direct the appropriate FHFA OIG management officials to develop monitoring procedures to reasonably assure that FHFA OIG staff are effectively reviewing the FHFA OIG quarterly reconciliations to timely identify and resolve intragovernmental differences.</p> <p>Actions taken:</p> <p>During our fiscal year 2024 audit, we determined that FHFA OIG documented and implemented additional monitoring procedures to reasonably assure that its personnel are reviewing quarterly reconciliations to timely identify and resolve intragovernmental differences. We did not identify any exceptions during our examination of FHFA OIG's fiscal year 2024 quarterly intragovernmental reconciliations.</p>	2023	Closed

Source: GAO analysis of FHFA data. | GAO-25-107981

Agency Comments

We provided a draft of this report to FHFA for comment. In its comments, reproduced in the enclosure, FHFA stated that it agreed with the four recommendations in this report and described actions it plans to take to address the recommendations regarding accounts payable accruals and communications between its accounting office and business units. The actions that FHFA described, if implemented effectively, would address our recommendations. We will evaluate the effectiveness of FHFA's efforts on these recommendations and those from our reports that remained open as of September 30, 2024, during our audits of its fiscal year 2025 financial statements.

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We are sending copies of this report to the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Chairperson of the Securities and Exchange Commission, the Director of the Office of Management and Budget, appropriate congressional committees, and other interested parties. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at sitwilliamsa@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Ted Hu (Assistant Director), Brian Koning, Destiny Bowie, and Melissa Bentley made key contributions to this report.

Sincerely,

//SIGNED//

Anne Sit-Williams
Director, Financial Management and Assurance

Enclosure

Enclosure I: Comments from the Federal Housing Finance Agency



Federal Housing Finance Agency

Constitution Center 400 7th Street, S.W.

Washington, D.C. 20219

Telephone: (202) 649-3800

www.fhfa.gov

April 15, 2025

Ms. Anne Sit-Williams
Director, Financial Management and Assurance
U. S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Sit-Williams:

Thank you for the opportunity to review and respond to the U.S. Government Accountability Office (GAO) report, *Improvements Needed in Certain Controls over Financial Reporting*. I appreciate GAO's work during the fiscal year (FY) 2024 financial statements audit. I am pleased GAO found that U.S. Federal Housing FHFA's (Federal Housing Finance Agency) FY 2024 financial statements were fairly presented in all material respects and that the Agency had effective internal control over financial reporting.

The Agency agrees that GAO's recommendations outlined in the Report will strengthen our internal controls over financial reporting. To that end, the Agency has taken steps to comply with all of GAO's recommendations contained in the Management Report as described below.

Recommendation 1: *The Director of FHFA should update FHFA's documented procedures to provide sufficiently clear guidance for determining year-end accounts payable accruals, including clearly defining roles and responsibilities.*

Management Response: The Agency agrees with the recommendation. The Office of Chief Financial Officer (OCFO) will establish a new methodology for determining year-end accounts payable accruals and will update the accounting manual with clearly defined roles and responsibilities. OCFO will complete these actions by June 30, 2025.

Recommendation 2: *The Director of FHFA should update FHFA's documented procedures to provide sufficiently detailed guidance for supervisory review of year-end accounts payable accruals.*

Management Response: The Agency agrees with the recommendation. OCFO will establish a new methodology for determining year-end accounts payable accruals and will update the accounting manual with detailed guidance for supervisory review. OCFO will complete these actions by June 30, 2025.

Recommendation 3: *The Director of FHFA should develop and document policies and procedures requiring the accounting office to coordinate with applicable FHFA business units to reasonably assure that the accounting office has the necessary information to meet financial accounting or reporting requirements.*

Management Response: The Agency agrees with the recommendation. OCFO will update the accounting manual to include a regular communication mechanism with relevant FHFA business units to obtain the necessary financial accounting and reporting information resulting from significant changes and events. OCFO will complete these actions by June 30, 2025.

Recommendation 4: *The Director of FHFA should update FHFA's documented procedures to provide sufficiently detailed guidance for documentation requirements to support FHFA's lease valuations.*

Management Response: The Agency agrees with the recommendation. OCFO will update the accounting manual to include detailed guidance on documentation requirements to support lease valuations. FHFA will complete these actions by June 30, 2025.

I would like to acknowledge the dedication and professionalism of the GAO staff who conducted the financial statement audit. The report and its conclusions are a valuable resource for the Agency as it continues to enhance controls over financial reporting. If there are questions related to our response, please contact Kristin Salzer, Controller, at kristin.salzer@fhfa.gov.

Sincerely,

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Edom Aweke
Acting Chief Financial Officer

Accessible Text for Enclosure I: Comments from the Federal Housing Finance Agency

Federal Housing Finance Agency
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Management Response: The Agency agrees with the recommendation. OCFO will update the accounting manual to include a regular communication mechanism with relevant FHFA business units to obtain the necessary financial accounting and reporting information resulting from significant changes and events. OCFO will complete these actions by June 30, 2025.

Recommendation 4: The Director of FHFA should update FHFA's documented procedures to provide sufficiently detailed guidance for documentation requirements to support FHFA's lease valuations.

Management Response: The Agency agrees with the recommendation. OCFO will update the accounting manual to include detailed guidance on documentation requirements to support lease valuations. FHFA will complete these actions by June 30, 2025.

I would like to acknowledge the dedication and professionalism of the GAO staff who conducted the financial statement audit. The report and its conclusions are a valuable resource for the Agency as it continues to enhance controls over financial reporting. If there are questions related to our response, please contact Kristin Salzer, Controller, at kristin.salzer@fhfa.gov.

Sincerely,

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Edom Aweke
Acting Chief Financial Officer