

Federal Housing Finance Agency
Office of Inspector General



FHFA Secured Electronic Media It Designated for Disposal, But Did Not Inventory Items Consistently or Reconcile Inventory Discrepancies

Compliance Review • COM-2023-003 • February 2, 2023



COM-2023-003

February 2,
2023

Executive Summary

FHFA stores data using a variety of electronic media. The Agency disposes of such media when they fail, or when the system to which a particular electronic device is connected reaches the end of its service life. FHFA policies and procedures protect the information on its electronic media prior to disposal. These policies require the Agency to “sanitize” all retired media (i.e., render data written on media unrecoverable) or destroy media that cannot be sanitized.

In a 2020 audit, we found that FHFA’s controls over retired electronic media did not ensure accountability. Notably, FHFA could not reconcile the number of assets it had approved for disposal with the number of assets the Agency’s contractor actually collected for disposal.

We recommended that FHFA “[r]eview, revise, and implement its procedures for disposal of electronic media targeted for destruction[.]” We stated that the revised procedures should accomplish several objectives, including but not limited to the following:

- Provide for tracking the targeted electronic media in an inventory system of record;
- Provide for regular physical inventory of the targeted electronic media and reconciliation to the control record(s) through destruction; and
- Provide for accountability of the targeted electronic media from the time the media is taken out of service through its destruction, with reconciliations of any count differences that may arise as the media is transferred within FHFA, and from FHFA to other parties used to destroy the media.

FHFA agreed with our recommendation. As part of its corrective action, FHFA revised its Information Security Media Sanitization Procedures (revised Procedures) to require the Agency to: (1) retain documentation that includes a description and inventory of the assets targeted for sanitization, as well as specific management approvals; (2) store electronic media in a secured, controlled location with at least one physical barrier; and (3) track electronic media in an inventory system of record, including monitoring any media that has been designated for disposal as it proceeds through the disposal process. Based on the Agency’s actions, we closed the recommendation on March 19, 2021.

We initiated this compliance review to determine whether FHFA adhered to the revised Procedures noted above. We found that FHFA executed and



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maintained the requisite documentation for those assets disposed of during our review period and had kept those assets in an appropriately secured location pending their disposal. We also found that FHFA did not consistently inventory its retired electronic media and was unable to reconcile discrepancies found in those inventories it did provide. FHFA's adoption of the revised Procedures has not corrected this shortcoming identified in our audit report. Therefore, we are re-opening our 2020 recommendation.

This report was prepared by Alisa Davis, Senior Policy Advisor, and Karen Van Horn, Senior Investigative Counsel. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the report's preparation.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaog.gov.

/s/

Brian W. Baker
Deputy Inspector General

Office of Compliance

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ABBREVIATIONS

Agency or FHFA	Federal Housing Finance Agency
FISMA	Federal Information Security Modernization Act of 2014
GAO	Government Accountability Office
Green Book	GAO-14-704G, <i>Standards for Internal Control in the Federal Government</i>
NIST	National Institute of Standards and Technology
OIG	FHFA Office of Inspector General
OTIM	FHFA Office of Technology and Information Management
Revised Procedures	FHFA Information Security Media Sanitization Procedures

BACKGROUND

FHFA Disposes of Non-Functioning or Obsolete Electronic Media

FHFA stores data on a variety of electronic media, such as hard disk drives, removable media drives, and mobile devices. FHFA disposes of an electronic device if it fails or when the system to which it is connected reaches the end of its service life. One way in which FHFA disposes of a retired electronic device is by destroying it. According to FHFA, destruction is an option only if: (1) the device has no commercial value or if the estimated cost of its continued care and handling would exceed the estimated proceeds if the item were sold on FHFA’s behalf by the General Services Administration; or (2) the device cannot be sanitized (i.e., data written on the media is rendered unrecoverable) due to hardware failure or error.¹ Another way FHFA disposes of retired devices is to designate a device as “excess” and then transfer it to another agency via the General Services Administration; such devices must first be sanitized.

FHFA’s Disposal of Retired Electronic Media is Subject to Executive Branch Standards

The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to develop, document, and implement programs to secure the information and information systems that support their operations and assets. Pursuant to FISMA, the National Institute of Standards and Technology (NIST) is responsible for developing information security standards and guidelines, including minimum requirements for federal information systems.

Agencies are also required by the Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (the Green Book) to establish physical control over vulnerable assets. They are expected to design an internal control system that provides reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of agency assets. For example, a physical control over vulnerable assets may consist of locking those assets behind secured physical barriers to which access is limited. Additionally, per the Green Book, management should periodically count and compare such assets to control records.

OIG Identified Concerns with FHFA’s Controls Over Retired Electronic Media

In a 2020 audit, we found that FHFA’s controls over retired electronic media did not ensure accountability. Notably, we reported that FHFA could not reconcile the number of electronic devices it had approved for disposal with the number of electronic devices its contractor had

¹ FHFA states that such devices would be destroyed by shredding or incineration.

actually collected for disposal. In addition, FHFA did not sanitize the retired electronic media prior to disposal, as required both by its own procedures and by NIST standards. We concluded that the unsanitized retired electronic media created a risk that FHFA data could be exposed.

We recommended that FHFA review, revise, and implement its procedures for disposal of electronic media targeted for destruction, consistent with NIST and [GAO] requirements. Those revised Procedures should:

- Provide for tracking the targeted electronic media in an inventory system of record;
- Provide for regular physical inventory of the targeted electronic media and reconciliation to the control record(s) through destruction; and
- Provide for accountability of the targeted electronic media from the time the media is taken out of service through its destruction, with reconciliations of any count differences that may arise as the media is transferred within FHFA, and from FHFA to other parties used to destroy the media.

FHFA accepted our recommendation, which the Agency's Office of Technology and Information Management (OTIM) subsequently took steps to address. Among other corrective actions, FHFA revised its Information Security Media Sanitization Procedures to prescribe requirements for electronic media tracking and accountability.

The revised Procedures specify that, among other measures, FHFA should perform the following for retired electronic media:

1. Retain FHFA Form 068 "Disposal of Temporary Records Form" for all assets awaiting disposal. The form includes a description and inventory of the assets targeted for sanitization,² as well as approvals from the Office Records Liaison, the applicable Office Director or designee, a representative from the Office of General Counsel, and the FHFA Records Officer or designee;
2. Store retired electronic media in a secured OTIM-controlled location with at least one physical barrier; and
3. Track electronic media in an inventory system of record, and inventory, including monitoring any such media that has been designated for disposal, as it proceeds through the disposal process.

² Form 068 may also be used to facilitate disposal of assets other than electronic media. However, when electronic media is being disposed of, it must first be sanitized.

Based on the Agency’s actions, we closed the recommendation on March 19, 2021.

FINDINGS

We initiated this compliance review to determine whether, during the 15-month period of April 1, 2021, through June 30, 2022 (the review period), FHFA adhered to the revised Procedures.

FHFA Retained an Accurate, Fully Executed Form 068 for All Retired Electronic Media Disposed of During our Review Period

As noted above, the revised Procedures require FHFA to retain FHFA Form 068 “Disposal of Temporary Records Form” for all assets that the Agency has targeted for disposal. The Agency’s Office of Facilities and Operations Management reports that the only electronic media it disposed of during our review period was a set of 100 laptops designated for disposal in July 2020.³ FHFA provided a Form 068 for each of the 100 laptops, all of which are fully executed by designated Agency personnel. A random sampling of the Form 068’s extensive information indicates that the form accurately captures all requisite information for the laptops FHFA targeted for disposal.

FHFA Stored Retired Electronic Media Targeted for Disposal in a Secured OTIM-Controlled Location with Two Physical Barriers

On August 23, 2022, we performed a physical inspection of FHFA’s retired electronic media.⁴ We verified that FHFA stores its retired electronic media behind two physical barriers. All such media are maintained within a locked, OTIM-controlled room at its Washington, D.C. headquarters, access to which is restricted by an electronic badge reader. Entrants must present their identification badges to be scanned in order to access this room, and the badge reader will grant entry only to those individuals who have previously been granted authorization to enter. Inside the room, access to retired media is restricted further by a locked, fenced area, within which the electronic media are stored, and which further protects that media from unauthorized access. FHFA’s maintenance of retired electronic media behind these two physical barriers meets and exceeds the revised Procedure’s storage requirements.

³ The Form 068 is dated before our review period, but the laptops listed therein remained in OTIM custody during the review period and therefore are within this report’s scope.

⁴ While the category “electronic media” includes multiple types of devices, the Agency designated only laptops for disposal during the review period, so our review was confined to those laptops.

FHFA Did Not Consistently or Reliably Track Retired Electronic Media in an Inventory System of Record

The revised Procedures require OTIM to maintain inventories of all retired electronic media. FHFA told us it performs these inventories monthly. We requested all of OTIM’s monthly inventories for our 15-month review period; FHFA provided inventories for 11 of the 15 months (73%). The Agency stated it could not locate inventories for December 2021, March 2022, May 2022, and June 2022. In the absence of these four missing monthly inventories, we lack a basis on which to find that FHFA met its inventory obligation for the entirety of the review period.

Our review also raised concerns about whether retired “electronic media is physically inventoried and reconciled to inventory control records.” We analyzed the 11 inventory records that FHFA was able to provide and identified discrepancies showing that the total excess electronic media assets targeted for disposal exceeded the total electronic media assets physically scanned by those performing the inventory in 10 of 11 months (91%). Of the undercounts in those 10 months, five months reflected relatively minor (single-digit discrepancies) while four other months reflected more significant (double-digit) discrepancies. Most significantly, the remaining month reflected a discrepancy of 144 electronic media assets. Because FHFA was unable to provide all of the inventory records for our review period, we were unable to determine whether this large discrepancy continued.

We requested – but were not provided – inventory reconciliations.⁵

CONCLUSIONS

We found that FHFA secures retired electronic media behind two physical barriers and maintains documentation demonstrating accountability for devices as they are transferred between divisions and, ultimately, outside of the Agency. FHFA did not consistently perform inventories of its retired electronic media and did not reconcile discrepancies in its inventory records. These issues were identified in our 2020 audit and remain present today. Therefore, we will re-open the recommendation from our prior audit and reiterate that FHFA should review, revise, and implement its procedures for disposal of electronic media targeted for destruction, consistent with NIST and GAO requirements, to include regular physical

⁵ In response to our request for inventory reconciliations, OTIM said that it attempts to reconcile discrepancies by placing electronic media that it cannot find on a “weekly loss report”; however, these reports, while they identify missing items, neither explain nor attempt to explain the discrepancies in monthly reports.

inventory of the targeted electronic media and reconciliation to the control record(s) through destruction.

FHFA COMMENTS AND OIG RESPONSE.....

We provided a draft of this report for FHFA’s review and comment. The Agency’s comments are included in the Appendix to this report.

OBJECTIVE, SCOPE, AND METHODOLOGY

We initiated this compliance review to determine whether, for the 15-month period of April 1, 2021, through June 30, 2022, FHFA adhered to its procedures for disposing of electronic media assets.

To conduct our work, we reviewed Agency documentation tracking the targeted electronic media assets in an inventory system and documents supporting custodial transfers. We also observed FHFA’s physical storage of the assets while awaiting disposal and interviewed OTIM and FHFA Office of Facilities and Operations Management officials.

We conducted our compliance review from August 2022 through November 2022 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (December 2020), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency.

APPENDIX: FHFA MANAGEMENT RESPONSE.....

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Federal Housing Finance Agency

MEMORANDUM

TO: Brian Baker, Deputy Inspector General for Compliance
THROUGH: Katrina D. Jones, Chief Operating Officer
FROM: Tammy L. Tippie, Acting Chief Information Officer

KATRINA JONES
TAMMY TIPPIE

Digitally signed by KATRINA JONES
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Date: 2023.01.26 10:47:26 -05'00'

SUBJECT: Draft Compliance Report: *FHFA Secured Electronic Media It Designated for Disposal, But Did Not Inventory Items Consistently or Reconcile Inventory Discrepancies*

DATE: January 25, 2023

Thank you for the opportunity to respond to the above-referenced draft compliance report by the Office of Inspector General (OIG). This memorandum provides the Federal Housing Finance Agency's (FHFA) management response to the reopened recommendation contained in the report AUD-2020-009: *FHFA Cannot Assure that All Electronic Media Approved for Destruction in 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal.*

Recommendation 1: *Review, revise, and implement its procedures for disposal of electronic media targeted for destruction, consistent with NIST and Green Book requirements. Those revised procedures should:*

- Provide for the tracking of the targeted electronic media in an inventory system of record;*
- Provide for regular physical inventory of the targeted electronic media and reconciliation to the control record(s) through destruction; and*
- Provide for accountability of the targeted electronic media from the time the media is taken out of service through its destruction, with reconciliations of any count differences that may arise as the media is transferred within FHFA, and from FHFA to other parties used to destroy the media.*

Management Response: FHFA acknowledges the reopening of Recommendation 1. FHFA will review and, as necessary, revise its Asset Management Procedures by June 30, 2023, to ensure that all targeted electronic media are:

- Tracked in an inventory system of record;
- Physically inventoried and reconciled to inventory control records; and
- Accounted for from the time the electronic media is first put into service through when it is taken out of service.

If you have any questions, please feel free to contact Stuart Levy at Stuart.Levy@fhfa.gov or (202) 649-3610.

CC:

John Major
Tom Leach
Robert Whitehill

ADDITIONAL INFORMATION AND COPIES.....

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