

Federal Housing Finance Agency
Office of Inspector General



Compliance Review of FHFA's Process for Making Changes to Conservatorship Scorecard Targets

Compliance Review • COM-2018-004 • June 20, 2018



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June 20, 2018

Executive Summary

Each year since 2012, the Federal Housing Finance Agency (FHFA or Agency) has issued to Fannie Mae and Freddie Mac (collectively, the Enterprises) a Scorecard with objectives for the Enterprises to achieve in furtherance of the Agency's strategic goals for the conservatorships of the Enterprises. To assess the Enterprises' performance in meeting their Scorecard objectives, the Agency groups the objectives into projects. Projects, in turn, are comprised of discrete tasks called "targets" with scheduled completion dates.

In a 2016 audit report, we found that the Agency had revised Scorecard targets or extended the time within which they were to be completed, but failed to document those changes. We explained that the lack of accurate and precise records could create the misimpression that an Enterprise had completed the target when, in fact, that target had been modified or the completion date had been extended. Because compensation of the Enterprises' executives is based, in part, on the Enterprises' performance against the Scorecard and the Scorecard is the primary means of measuring the Enterprises' progress against the conservator's strategic goals, we stressed the need for accurate and precise records. We recommended that the Agency adopt standards by which revisions to Scorecard targets would be documented, and the Agency agreed. FHFA asserted that it revised its guidance process, and in June 2016, adopted Scorecard procedures, upon which we closed the recommendation.

In February 2018, we initiated this compliance review to test the Agency's implementation of its Scorecard procedures during 2017. We found that, of the 30 projects in the 2017 Scorecard, the Agency had revised targets or their completion dates associated with 14 of the projects. We conducted independent testing of the Agency's process for tracking and documenting target modifications, and found that the Agency had adhered to its procedures.

This report was prepared by Alisa Davis, Senior Policy Advisor, and Patrice Wilson, Senior Investigative Evaluator, with assistance from Wesley M. Phillips, Senior Policy Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.



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

Richard Parker

Deputy Inspector General for Compliance & Special Projects

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ABBREVIATIONS

DOC	Division of Conservatorship
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
PMO	Project Management Office
Scorecard Procedures	<i>Conservatorship Scorecard Procedures</i>

BACKGROUND.....

In 2012, FHFA sent Congress a strategic plan for operating its conservatorships of the Enterprises, which it has revised over time. Currently, FHFA is operating under its 2014 Strategic Plan for the conservatorships, which has three strategic goals.¹ To implement its 2014 Strategic Plan, FHFA issues annual Scorecards with objectives that the Enterprises are expected to achieve.² FHFA uses its annual Scorecards to communicate its priorities and expectations to the Enterprises and the public.

FHFA's Division of Conservatorship (DOC), through its Project Management Office (PMO), oversees the Scorecard process.³ Operational divisions within FHFA develop projects designed to facilitate the Enterprises' implementation of their Scorecard objectives. These projects, in turn, are comprised of discrete tasks, called "targets." DOC's Deputy Director approves targets and revisions thereto. The operational divisions then assess the Enterprises' performance in meeting their Scorecard objectives, providing feedback to DOC through the PMO.

Annual assessments of the Enterprises' performance in achieving their Scorecard objectives are factors considered by FHFA in setting compensation for the Enterprises' executives. DOC's PMO assists FHFA's Executive Compensation Branch with the annual performance rating process.

¹ The three strategic goals are: (1) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets; (2) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and (3) build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future. FHFA, *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (May 13, 2014) (online at www.fhfa.gov/AboutUs/Reports/Pages/2014-Conservatorships-Strategic-Plan.aspx).

² FHFA publishes its annual Scorecards on its website. We reviewed the *2017 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* (Dec. 15, 2016) (online at www.fhfa.gov/AboutUs/Reports/ReportDocuments/2017-Scorecard-for-Fannie-Mae-Freddie-Mac-and-CSS.pdf) (accessed Feb. 21, 2018). For the current Scorecard, see FHFA, *2018 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* (Dec. 21, 2017) (online at www.fhfa.gov/AboutUs/Reports/Pages/2018-Scorecard-for-Fannie-Mae-Freddie-Mac-and-Common-Securitization-Solutions.aspx) (accessed May 30, 2018).

The Scorecard also sets objectives for the Common Securitization Solutions, LLC, a joint venture of the Enterprises established to develop and administer the Scorecard goal related to the Common Securitization Platform.

³ After our review period, the PMO was moved to the Office of the Chief Operating Officer.

OIG Identified Deficiencies in DOC's Scorecard Assessment Process

In a 2016 audit report,⁴ we assessed FHFA's tracking and rating of the Enterprises' performance in meeting deadlines to complete two targets of a project tied to an objective in the 2013 Scorecard. We reviewed FHFA's records of the Enterprises' completion of these targets and found that they were imprecise and unclear. FHFA's records did not reflect the modification of one target and its revised completion date. We explained that the lack of accurate and precise records could create the misimpression that an Enterprise had completed the target when, in fact, that target had been modified or the completion date had been extended. Because compensation of the Enterprises' executives is based, in part, on the Enterprises' performance against the Scorecard, and the Scorecard is the primary means of measuring the Enterprises' progress against the conservator's strategic goals, we stressed the need for accurate and precise records.

We recommended that the Agency adopt standards by which revisions to Scorecard targets would be documented, and the Agency agreed.

DOC Established Procedures Intended to Improve its Scorecard Assessment Process

On June 9, 2016, FHFA issued the *Conservatorship Scorecard Procedures* (Scorecard Procedures), which sets forth the required practices to be used by the PMO to revise targets and their completion dates. The Scorecard Procedures include the following requirements:

- The PMO must solicit, at least quarterly, from the Agency's operational divisions any updates or revisions to the targets and their completion dates;
- Each operational division must prepare a memorandum explaining the reasons for the updates or revisions and provide it to the PMO;
- The PMO must collect and maintain copies of the targets and their completion dates, as well as any proposed changes to the targets and completion dates by the operational divisions and supporting memoranda; and
- The DOC Deputy Director must approve, verbally or in writing, any revisions to the targets and completion dates before they are made.

In September 2016, we closed the recommendations based upon the Agency's adoption of the Scorecard Procedures.

⁴ OIG, *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* (Mar. 28, 2016) (AUD-2016-002) (online at www.fhfa.ig.gov/Content/Files/AUD-2016-002.pdf).

FACTS AND ANALYSIS

We initiated this compliance review to determine whether the PMO followed DOC's Scorecard Procedures during 2017 (our review period). We concluded that the PMO did so.

The Agency Revised Several Targets and Completion Dates Associated with 14 of the 30 Projects in the 2017 Scorecard

The Agency advised us that it revised the completion dates for 13 targets and substantively revised 33 targets, associated with 14 of the 30 projects⁵ in the 2017 Scorecard.⁶ For this compliance review, we independently tested whether the Agency followed the required procedures in its Scorecard Procedures for these 46 target revisions during 2017. We found that FHFA established both the project-related targets and completion dates for these targets in February 2017, and revisions were made to the targets at five points during 2017. We compared each revision with its immediately preceding version to assemble the population of revised targets and completion dates during 2017. We then compared the population we identified against the population identified by the Agency and found they were identical.

The Agency Followed its Scorecard Procedures for these Revisions of Targets and Completion Dates⁷

We obtained Agency records of the revisions to these Scorecard targets. Specifically, we received email solicitations for target revisions and responses from the responsible Agency operational divisions. We also obtained the memoranda supporting each revision and the PMO's copy of each proposed change to the targets and/or completion dates. Additionally, we obtained documentary evidence of the DOC Deputy Director's decision as to each proposed revision.

We analyzed the Agency's records in light of the requirements contained in its Scorecard Procedures and determined that the PMO complied with them. The PMO solicited proposed

⁵ For example, one project the Enterprises are working on is called the "Common Securitization Platform." Associated targets include various testing milestones for this large and complex project.

⁶ The Agency made two clerical corrections to Scorecard targets, which it fully documented. We did not include these two corrections in the population of revisions to the 2017 Scorecard.

⁷ In March 2018, the PMO notified us that it had revised its procedures the prior month. The revised procedures did not apply during the period of our fieldwork. Upon review we determined that the revisions were nominal and that controls appear to remain in place to ensure that all future changes to Scorecard targets will be tracked and documented in accordance with our recommendation.

target modifications from FHFA’s operational divisions at least quarterly.⁸ The responsible divisions responded to the PMO with proposed redlined changes to targets, and explanatory memoranda, which the PMO maintained as required. We also identified evidence of the DOC Deputy Director’s approval of the target modifications. For four of the five proposed sets of revisions, the DOC Deputy Director provided approvals in writing. For one of the five, we found evidence that he approved the proposed revision orally, which he has discretion to do under the Scorecard Procedures.

Statutory and regulatory requirements require FHFA, and other federal agencies, to maintain records containing “adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency[.]”⁹ We leave to FHFA to determine whether continuing to permit the DOC Deputy Director to orally approve revisions to targets and completion dates is consistent with these requirements.

CONCLUSIONS

In this compliance review, we determined that DOC followed its Scorecard Procedures with respect to revisions to targets and completion dates during 2017. The PMO maintained the necessary records and complied with the steps outlined in the Scorecard Procedures. The PMO’s implementation of our recommendation – that it track target revisions in writing – produced the effect we intended in making our recommendation.

⁸ Because the targets, and completion dates, were established in February 2017, the PMO solicited proposed revisions from the operational divisions in the second, third, and fourth quarters of 2017.

⁹ See 44 U.S.C. § 3101; 36 C.F.R. § 1222.22.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to assess DOC’s compliance with its Scorecard Procedures during 2017 (our review period).

To accomplish our objective, we reviewed DOC’s Scorecard Procedures, the 2017 Scorecard, and the 2017 Internal Guidance. We also examined DOC PMO’s records that it solicited the responsible Agency divisions at least quarterly for target revisions, tracked redlined and clean versions of those target changes, received explanatory memoranda, and maintained the DOC Deputy Director’s approval of the target revisions. In addition, we independently compared each revised target with the preceding version to determine the complete population of targets that the Agency revised during 2017. We compared the revisions we identified against the revisions identified by the Agency to ensure all target changes had been reported to us and tracked by the PMO. Finally, we interviewed Agency personnel and reviewed other public documents regarding the Scorecard.

We conducted our compliance review from February 2018 to April 2018 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (January 2012), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency.

We provided a draft of this report to FHFA for its review and comment. On June 12, 2018, the Agency provided technical comments, which we incorporated as appropriate, and its management response, which is set forth in its entirety in the appendix.

APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Richard Parker, Deputy Inspector General for Compliance and Special Projects

FROM: ^{BR} Bob Ryan, Acting Deputy Director, Division of Conservatorship (DOC)

SUBJECT: Draft Report: *Compliance Review of FHFA's Process of Making Changes to Conservatorship Scorecard Targets*

DATE: June 13, 2018

Thank you for the opportunity to respond to the Federal Housing Finance Agency Office of Inspector General's (FHFA OIG) draft report, *Compliance Review of FHFA's Process of Making Changes to Conservatorship Scorecard Targets* (Report). The review assessed DOC's compliance with the Conservatorship Scorecard procedures during 2017.

I am pleased the review determined that DOC followed its procedures, maintained necessary records, and the procedures produced the intended effect of the FHFA OIG's recommendation.

cc: Larry Stauffer, Acting Chief Operating Officer
John Major, Internal Controls and Audit Follow-up Manager

ADDITIONAL INFORMATION AND COPIES.....

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