Closure of OIG Review of FHFA’s Supervision of an Enterprise’s Remediation of Matters Requiring Attention
TO: Nina A. Nichols, Deputy Director, Division of Enterprise Regulation

FROM: Angela Choy, Assistant Inspector General for Evaluations

SUBJECT: Closure of OIG Review of FHFA’s Supervision of an Enterprise’s Remediation of Matters Requiring Attention Pertaining to its

Summary

As the federal regulator of Fannie Mae and Freddie Mac (collectively, the Enterprises) and of the Federal Home Loan Bank System, the Federal Housing Finance Agency (FHFA or the Agency) is tasked by statute with ensuring that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Within FHFA, the Division of Enterprise Regulation (DER) is responsible for supervising the Enterprises. In July 2015, the Office of Inspector General (OIG) announced that it was commencing an audit to review DER’s supervision of an Enterprise’s remediation of four Matters Requiring Attention (MRAs)1 pertaining to. OIG initiated this review after reviewing DER records indicating the four MRAs continued to be “open” more than three and a half years after their issuance. This memorandum closes our review.

Facts

In December 2011, DER issued four MRAs to the subject Enterprise pertaining to

1 Under Advisory Bulletin 2012-01, Categories of Examination Findings, which was in effect at the time that DER issued the four MRAs, “MRAs are the most serious supervisory matters” and “require prompt remediation by the regulated entity and timely follow-up by FHFA.”

2 The audit was subsequently transferred to OIG’s Office of Evaluations.
The following month, the Enterprise submitted remediation plans to DER with remediation deadlines varying between June 2012 and June 2013. FHFA informed the Enterprise that the Agency had no objection to the remediation plans. In June and December 2012, the Enterprise submitted closure packages to DER and asserted that management had fully addressed the MRAs. DER examiners concluded in March 2013 that the Enterprise had remediated the MRAs. In June 2013, the then-DER examiner-in-charge sent the Enterprise a non-objection letter, informing the Enterprise that DER had no objections to the MRA closure packages; however, the examiner-in-charge did not close the MRAs at that time.

DER changed its practice for assessing remediation and closing MRAs. In April 2013, a month after examiners concluded that the MRAs had been sufficiently remediated, DER issued an operating procedures bulletin that called for an Enterprise’s internal audit function, or other independent third party, to validate that management’s MRA remediation was complete and consistent with the remediation plan. Under the new operating procedure, DER examiners would assess the Enterprise’s remediation activities through ongoing monitoring, including reviewing Internal Audit’s validation work. Once the examiner-in-charge determines that an MRA has been satisfactorily addressed, DER would communicate this determination in writing to the Enterprise and the MRA’s status on DER’s MRA tracking report would be changed to “closed.”

According to DER documents, the Enterprise’s Internal Audit completed validation of the four MRAs by January 2015, and during the 2014 and 2015 examination cycles, DER examiners performed ongoing monitoring work related to . In December 2015, a DER examiner determined that the Enterprise had completed the actions required to address the MRAs, based on management’s remediation and Internal Audit’s validation of those actions. DER issued a “remediation letter” to the Enterprise on January 29, 2016, informing the Enterprise that FHFA considers the MRAs to be satisfactorily addressed, and DER closed the MRAs.

Conclusion

Although DER examiners concluded in March 2013 that management had remediated these MRAs, DER records we accessed continued to identify ongoing monitoring work related to the MRAs in its supervisory plan more than two years later. Given DER’s conclusion that the MRAs were satisfactorily remediated and are now closed, we determined that an evaluation of DER’s supervision of the Enterprise’s remediation of these MRAs is not warranted and are closing this review.

Objective, Scope, and Methodology

The objective of this review was to assess FHFA’s supervision of the Enterprise’s remediation of four MRAs related to the Enterprise’s . To achieve this objective, we reviewed DER materials dating from September 2011 through January 2016,
including DER guidance on MRA remediation, DER supervisory plans, and examination workpapers related to the four MRAs.

This review was conducted under the authority of the Inspector General Act in accordance with the Quality Standards for Inspection and Evaluation (January 2012), which was promulgated by the Council of the Inspectors General on Integrity and Efficiency. These standards require OIG to plan and perform an evaluation that obtains evidence sufficient to provide a reasonable basis to support its conclusions. OIG believes that this review meets these standards.

A draft of this memorandum was sent to FHFA.

We appreciate the cooperation of FHFA and the assistance of all those who contributed to the preparation of this report. It has been distributed to Congress, the Office of Management and Budget, and others and will be posted on OIG’s website, www.fhfaoig.gov.

cc: The Honorable Melvin L. Watt, FHFA Director
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