Federal Housing Finance Agency
Office of Inspector General

FISCAL YEAR 2015
CONGRESSIONAL BUDGET JUSTIFICATION

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I. EXECUTIVE SUMMARY

The Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (FHFA-OIG), requests $48,000,000—to be assessed from FHFA's regulated entities—and 150 Full Time Equivalents (FTE) for its operations during FY 2015. This request represents no net increase from FHFA-OIG's FY 2014 budget of $48,000,000.

A. FHFA

The Housing and Economic Recovery Act of 2008 (HERA), Public Law No. 110-289, established FHFA to oversee the safety and soundness of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the 12 Federal Home Loan Banks (FHLBanks), as well as the Office of Finance (collectively, the GSEs). In September 2008, FHFA became the conservator of Fannie Mae and Freddie Mac (collectively, the Enterprises) and in this capacity manages the Enterprises with the goal of preserving and conserving their assets. Since the inception of the conservatorships, the federal government has provided the Enterprises with approximately $187.5 billion in financial support to ensure their solvency.

The Enterprises provide critical support to the nation's housing market and economy. During the first quarter of 2013, they purchased or guaranteed 78 percent of all newly originated residential mortgages in the United States. As a result, FHFA's activities as conservator and regulator have potentially far-reaching ramifications that can affect the national housing policy and the welfare of millions of Americans. Therefore, the need for vigilant oversight remains a high priority.

B. FHFA-OIG

HERA amended the Inspector General Act of 1978, Public Law No. 95-452, and established FHFA-OIG, which conducts, supervises, and coordinates audits, evaluations, investigations, and other activities relating to the programs and operations of FHFA. FHFA-OIG also recommends policies that promote economy and efficiency in FHFA's programs, operations, and administration; and prevents and detects fraud, waste, or abuse in them.

1. Background

FHFA-OIG commenced operations in October 2010. Our budget is designed to support the FTE level necessary to meet Congressional demands for long-term and robust oversight of FHFA, Fannie Mae, Freddie Mac, and the FHLBank System. It is important to support these demands, as well as the activities initiated by FHFA-OIG, in response to the worst financial crisis since the

Great Depression. The importance of doing so is further underscored by the sheer size of the government's bailout of the GSEs ($187.5 billion), their uncertain future, the current fragility of the housing market, and the substantial taxpayer investment into the GSEs.

Unprecedented turmoil in the economy generally and the housing sector in particular have implicated every facet of FHFA's programs and operations. Specifically, in 2007, the housing market crashed due, in part, to insufficient oversight of the GSEs' operations. Their gravely deteriorated condition threatened the stability of the national economy and required Fannie Mae and Freddie Mac to be placed into conservatorships overseen by FHFA. In doing so, FHFA assumed the duties and responsibilities of their Boards of Directors and officers. As a result, FHFA has become both the operator and regulator of the Enterprises, which own or guarantee more than $5 trillion in mortgages.

In order to properly review FHFA's operations, FHFA-OIG must delve into its regulatory, supervisory, and conservatorship activities. This requires a careful review of the regulated and conserved entities and how FHFA operates with respect to each of them. This approach is critical to avoiding the failures of regulation that occurred at FHFA's predecessor agencies and elsewhere, and became the precursors of the country's economic crises. Additionally, FHFA-OIG special agents support criminal law enforcement activities involving housing finance. By contrast, unlike some other regulators FHFA does not have a law enforcement arm to investigate and refer for prosecution fraud, theft, and similar offenses affecting the Agency and the GSEs.

Two other facts about this budget are worthy of comment. First, in developing its original staff level estimate FHFA-OIG sought to balance the need for robust oversight of FHFA and the GSEs, which collectively employ over 10,000 staff and own or guarantee more than $5 trillion in mortgages, with the Administration's commitment to impose fiscal austerity in government programs. The proposed budget strikes an appropriate balance between these two ends. Second, FHFA-OIG carefully analyzed the size and scope of its mission with those of the greater community of Inspectors General, and—in comparison with the 32 Offices of Presidentially-Appointed Senate-Confirmed (PAS) Inspectors General—the FHFA-OIG proposed budget and staffing levels fall about midway within the range.

To guide its operations, FHFA-OIG created a Strategic Plan that describes its vision, mission, strategic goals, and objectives. To access the plan, see http://www.fhfaoig.gov/Content/Files/FY2015-2017%20Strategic%20Plan.pdf. FHFA-OIG also developed an Annual Performance Plan that includes FHFA-OIG's annual performance indicators. These indicators are reported in the last section of this document.

2. Vision

FHFA-OIG's vision is to continue to be an efficient and effective organization that promotes excellence and trust through its service to FHFA, Congress, the Administration, and the American public. In a complex and evolving financial environment, FHFA-OIG identifies opportunities for improvements in FHFA's programs and operations and seeks to detect and deter fraud, waste, and abuse.

3. Mission

The mission of FHFA-OIG is to: promote the economy, efficiency, and effectiveness of FHFA's programs and operations; prevent and detect fraud, waste, and abuse in FHFA's programs and operations; review and, if appropriate, comment on pending legislation and regulations; and seek administrative sanctions, civil recoveries, and criminal prosecutions of those responsible for fraud, waste, or abuse in connection with the programs and operations of FHFA.

In carrying out its mission, FHFA-OIG conducts independent and objective audits, evaluations, investigations, surveys, and risk assessments of FHFA's programs and operations, and keeps the head of FHFA, Congress, and the American people fully and currently informed of problems and deficiencies relating to such programs and operations. FHFA-OIG also works collaboratively with FHFA staff and program participants to ensure the effectiveness, efficiency, and integrity of FHFA's programs and operations.

C. ORGANIZATIONAL STRUCTURE

FHFA-OIG is comprised of the Inspector General, his senior staff, and the FHFA-OIG operating offices. FHFA-OIG's principal operating offices are the Office of Audits, the Office of Evaluations, and the Office of Investigations. FHFA-OIG also includes the Executive Office of the Inspector General and the Office of Administration.

> Executive Office of the Inspector General provides programmatic direction for all FHFA-OIG activities.
>
> Office of Audits provides performance audits and investigative support reviews relating to the programs and operations of FHFA in order to promote economy and efficiency within them and to ensure compliance with applicable laws and regulations.
>
> Office of Evaluations reviews, studies, and analyzes FHFA's programmatic and operational activities and provides independent and objective analyses to FHFA.

Office of Investigations investigates allegations of misconduct or fraud involving the programs and operations of FHFA, including Fannie Mae, Freddie Mac, and the FHLBanks.

Office of Administration is responsible for FHFA-OIG's human resources, budget development and execution, financial management, information technology, facilities and property management, safety, and continuity of operations.

D. SIGNIFICANT ACCOMPLISHMENTS

Since beginning operations in FY 2011, FHFA-OIG has provided the expert analysis necessary to affect real change in FHFA regulatory and conservatorship operations. We have issued audits, evaluations, and white papers that address numerous critical issues for FHFA, its programs, and operations. FHFA-OIG's reports credit FHFA for effectuating positive change in certain areas, but also reveal, among other things, instances in which the Agency, in its capacity as conservator, unduly deferred to the Enterprises' decisions. Similarly, FHFA-OIG reports have found instances in which FHFA, in its capacity as regulator, was not proactive in its oversight and enforcement. In addition, FHFA faces significant challenges in managing the conservatorships, including: (1) attempting to advance the Enterprises' business interests while assisting distressed homeowners; (2) serving simultaneously as both the Enterprises' conservator and regulator; and (3) balancing the uncertain future of the Enterprises. A significant indicator of the value of FHFA-OIG's reports is demonstrated by FHFA's acceptance and implementation of the vast majority of our audit and evaluation report recommendations.

Past Achievements and Future Plans

Cumulatively through January 2014, FHFA-OIG anticipates the following:

- **Investigative Activities:** FHFA-OIG investigators will have participated in numerous criminal, civil, and administrative investigations resulting in over 260 criminal indictments/ informations, and over 140 convictions;

- **Monetary Benefits:** FHFA-OIG played a significant role in Freddie Mac's implementation of a more expansive loan review process, which is estimated to generate additional recoveries ranging from $2.2 billion to $3.4 billion overall. Because these recoveries had not been anticipated and accounted for, the added revenue will increase Freddie Mac's profits and hence the amount paid to the U.S Department of the Treasury (Treasury). Further, various criminal and civil investigations have resulted in recoveries of over $16.7 billion.

- **Published Reports:** FHFA-OIG published more than 75 audits, evaluations, white papers, management letters, and alerts. A comprehensive list of these publications and full copies of these reports are accessible on: http://www.fhfaoig.gov/Reports.

- **Recommendations to FHFA:** FHFA-OIG has provided about 147 recommendations in its audits and about 65 recommendations in its evaluations and white papers, all of which promote transparency, efficiency, and effectiveness in FHFA's operations, and aid in the prevention and detection of fraud, waste, and abuse.

- **Semiannual Reports to Congress:** FHFA-OIG has issued six Semiannual Reports to the Congress from beginning operations in October 2010 to September 2013, with issuance of the seventh report anticipated for the spring 2014. To access the full reports, see: http://www.fhfaoig.gov/Reports/Semiannual.

- **Miscellaneous Publications:** FHFA-OIG has also developed numerous materials for stakeholders, including Tips for Consumers, FAQs, and tutorials, all of which are accessible on our website under Learn More; see: http://www.fhfaoig.gov/LearnMore.

- **Infrastructure:** FHFA-OIG continued to hire staff, secure resources, and establish operating policies and procedures. FHFA-OIG also reviewed and, when necessary, revised its administrative policies, launched an enhanced training program, and continued opening small investigative field offices throughout the United States. The opening of these offices has and continues to help reduce travel time and other administrative expenses as well as expedites the resolution of investigations.

- **Future Plans:** FHFA-OIG intends to publish 20 audits in FY 2014 and 24 audits in FY 2015. Similarly, FHFA-OIG intends to publish 14 evaluations/whitepapers in FY 2014 and 17 evaluation/whitepapers in FY 2015.

E. PLANNED ACTIVITIES

In FY 2014, FHFA-OIG anticipates publishing roughly 35 audits, evaluations, white papers and management alerts related to FHFA's management of the Fannie Mae and Freddie Mac conservatorships, FHFA's regulation of Fannie Mae and Freddie Mac, FHFA's supervision and regulation of the FHLBank System, and FHFA's internal operations. FHFA-OIG will also initiate audits and evaluations intended to examine servicers, contractors, and other counterparties. Additionally, FHFA-OIG anticipates completing several major audits and evaluations that may identify significant potential monetary benefits.

At the same time, FHFA-OIG will continue to participate in investigations of allegations of misconduct or fraud involving the programs and operations of FHFA, including Fannie Mae, Freddie Mac, and the FHLBanks.

FHFA-OIG will also continue to offer the support of its dedicated Investigative Counsel—attorneys with substantial criminal prosecution experience—to U.S. Attorneys Offices and law enforcement agencies to assist in investigating and prosecuting cases related to FHFA-OIG investigations. Additionally, FHFA-OIG will continue to be an active participant in the Residential Mortgage Backed Securities (RMBS) Working Group as discussed in more detail later in this report.

Finally, FHFA-OIG will issue two Semiannual Reports to record its audits, evaluations, and investigations, and to shed light upon the housing crisis and the condition of the GSEs.

F. SUMMARY OF FY 2015 BUDGET REQUEST

FHFA-OIG requests $48,000,000 and 150 FTEs for its operations during FY 2015. This request represents no net increase from FHFA-OIG's FY 2014 budget of $48,000,000 and demonstrates our commitment to responsible stewardship of scarce resources in a tight fiscal climate.[1] FHFA-OIG will leverage anticipated savings and efficiencies in discretionary costs to avoid increasing budgetary needs and offset unavoidable inflationary increases throughout the organization.

[1] The FY 2015 request assumes that the entire $48,000,000 will be funded via GSE assessments as FHFA-OIG anticipates little to no carry-forward from the prior year. It expects to offset inflationary pressures on the FY 2015 budget through decreases in Equipment and Land and Structures costs.

II. BUDGET JUSTIFICATION

A. BUDGET TABLES

3-Year Budget History Table

Estimate to Congress	FY 2013 Actual	FY 2014 Request[2]	FY 2015 Request
Budget Request	$48,000,000	$48,000,000	$48,000,000
FTE	*150*	*150*	*150*

Amounts Available for Obligation

(Dollars in Thousands)

	2013 Actual	2014 Estimate	2015 Request
Budget Authority			
Unobligated balance, start of year	$ 9,914	$ 6,360	
Annual assessment estimate	$38,086	$41,640	$48,000
Estimated prior year recoveries	1,858		
Subtotal amount available for obligation	**$49,858**	**$48,000**	**$48,000**
Unobligated balance, end of year	$ 6,360	$ 0	$ 0
Estimated Total Obligations	**$43,498**	**$48,000**	**$48,000**

Explanation of Changes, Appropriated Dollars, and FTE

(Dollars in Thousands)

	FTE	Budget Authority
2014 Estimate	150	$48,000
2015 Request	150	$48,000
Net Change	0	$ 0

[2] FHFA-OIG did not receive appropriations during FY's 2011- 2014 nor does it anticipate an appropriation for FY 2014. Pursuant to section 1106 of HERA, FHFA assessed the GSEs to support the operations of FHFA-OIG in FYs 2011-2014, and it anticipates the same in FY 2015. Further, the FY 2015 budget estimate and request includes proposed appropriations language in support of $48,000,000 in assessments for the operations of FHFA-OIG.

1. Assessments Language

For the necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, an amount not less than, and not to exceed, *$48,000,000*, to be derived from assessments collected from the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks under section 1106 of the Housing and Economic Recovery Act of 2008, to remain available for obligation until September 30, 2016.

2. Budget Reporting Requirements Under the Inspector General Act of 1978

In accordance with section 6(f)(1) of the Inspector General Act, FHFA-OIG submits the following information related to its requested budget for FY 2015:

- The aggregate budget request for the operations of FHFA-OIG is $48,000,000 and 150 FTEs;
- The portion of this amount needed for FHFA-OIG training is $300,000. This amount fully funds FHFA-OIG training needs for FY 2015;[3] and
- The 2015 budget also includes funding to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

3. Budget Reporting Requirements Under OMB Circular No. A-11

- The budget request does not include funds for education and training of the acquisition workforce because FHFA-OIG utilizes the Treasury Department's Bureau of Public Debt for acquisition services.
- The budget request does not include funds for energy conservation measures or E-government initiatives because FHFA-OIG relies on and benefits from FHFA's efforts in these areas.
- The budget request does not include funds for current or proposed capital projects.

[3] Professional standards require FHFA-OIG Audit staff to acquire 80 hours of job-related training every two years.

Budget by Object Classification (BOC)

BOC	Estimated Obligations by Object Classification	FY 2013 Actual	FY 2014 Budget	FY 2015 Request
11.1	Full Time Permanent	$18,376,000	$20,450,000	$21,499,000
11.5	Other Personnel Compensation	1,312,000	1,600,000	1,600,000
11.9	Total Personnel Compensation	$19,688,000	$22,050,000	$23,099,000
12.1	Civilian Personnel Benefits	6,937,000	7,499,000	8,100,000
21.0	Travel and Transportation of Persons	672,000	825,000	850,000
22.0	Transportation of Things	18,000	50,000	50,000
23.1	Rental Payments to GSA	129,000	750,000	800,000
23.2	Rental Payments to Others	0	60,000	65,000
23.3	Communications, Utilities, and Miscellaneous Charges	754,000	405,000	500,000
24.0	Printing and Reproduction	46,000	62,000	65,000
25.1	Advisory and Assistance Services	3,066,000	2,953,000	3,085,000
25.2	Other Services	1,335,000	1,500,000	1,500,000
25.3	Purchases of Goods and Services from Government Accounts	8,121,000	9,151,000	7,611,000
25.4	Operation and Maintenance of Facilities	0	25,000	25,000
25.7	Operation and Maintenance of Equipment	445,000	450,000	450,000
26.0	Supplies and Materials	786,000	785,000	800,000
31.0	Equipment	965,000	1,285,000	1,000,000
32.0	Land and Structures	546,000	150,000	0
91.0	Unvouchered Expenses	0	0	0
	Total (Lines 11.9–31.0)	**$43,498,000**	**$48,000,000**	**$48,000,000**

B. ORGANIZATIONAL COMPONENTS

1. Executive Office of the Inspector General

a. Program Description

The Executive Office of the Inspector General (EO) provides leadership and programmatic direction for FHFA-OIG's offices and activities.

EO includes the Office of Counsel (OC), which serves as the chief legal advisor to the Inspector General and provides independent legal advice, counsel, and opinions to FHFA-OIG about, among other things, its programs and operations. OC reviews audit, investigation, and evaluation reports for legal sufficiency and compliance with FHFA-OIG's policies and priorities. It also reviews drafts of FHFA regulations and policies and prepares comments as appropriate. Additionally, OC coordinates with FHFA's Office of General Counsel and manages FHFA-OIG's responses to requests and appeals made under the Freedom of Information Act and the Privacy Act.

EO responds to inquiries from, among others, the press and Members of Congress. Additionally, it prepares FHFA-OIG's semiannual reports and supports other FHFA-OIG offices on high-impact projects.

b. Significant Accomplishments: FY 2013 through January FY 2014

During FY 2013, EO continued its effort to further refine its goals, objectives, and internal operations to ensure that FHFA-OIG continues to bring transparency to, and promote the economy, efficiency, and effectiveness in, FHFA's programs and operations.

EO also continued to participate in an interagency working group comprised of housing inspectors general created by FHFA-OIG and known as the Federal Housing Inspectors General. Its membership includes the federal inspectors general with primary responsibility for federal housing, i.e., the U.S. Department of Veterans Affairs, the U.S. Department of Housing and Urban Development (HUD-OIG), and the U.S. Department of Agriculture. They collaborate on joint initiatives including criminal investigations and audits in areas of common interest.

In May 2013, FHFA-OIG and HUD-OIG published the *Joint Report on Federally Owned or Overseen Real Estate Owned Properties*, which focuses on residential properties that have been foreclosed upon and transferred into HUD's or the GSEs' Real Estate Owned (REO) inventories for management and ultimately, disposition. Specifically, the report reviews recent initiatives by HUD and the GSEs to shrink their respective REO inventories, as well as steps taken by HUD-OIG and FHFA-OIG to assess and address their respective agencies' REO activities.

To better conduct data analysis at the GSEs and help identify future issues requiring review, EO negotiated with the GSEs to obtain a dedicated data terminal for FHFA-OIG staff.

On November 27, 2012, Congress passed the Whistleblower Protection Enhancement Act (WPEA) which, among other things, clarifies the protected activities in which whistleblowers can engage. The WPEA is based on the principle that whistleblowers play a critical role in helping to uncover waste, fraud, abuse, and mismanagement and that they should be protected and not suffer retaliation. Specifically the WPEA requires each Inspector General to appoint a whistleblower ombudsman. FHFA-OIG's Deputy Chief Counsel serves as the ombudsman for FHFA-OIG.

c. Planned Activities

During FY 2014, EO will continue to provide direction and leadership to the Offices of Audits, Evaluations, Investigations, and Administration. Promoting the effective and efficient production of independent, timely, relevant, and objective surveys, audits, evaluations, risk assessments, and investigations will continue to be a high priority for EO, as will keeping FHFA senior management, Congress, policymakers, and the American people fully and currently informed about problems and deficiencies relating to FHFA's programs and operations.

Pursuant to its ongoing strategy of identifying vulnerabilities and risk areas in FHFA and GSE programs, EO will continue to review and revise FHFA-OIG's FY 2014 Audit and Evaluation Plan. The audits and evaluations set forth in the plan are based upon: independent risk assessments; reviews of relevant reports and documents; interviews with FHFA officials; coordination with other Inspectors General, GAO, and other oversight organizations; and consultations with Members of Congress, their staffs, and other government officials. Key aspects of FHFA-OIG's current strategy include ongoing reviews of FHFA's supervisory and regulatory efforts, its management of the Enterprise conservatorships, its oversight of the FHLBank System, and its internal operations. Areas of current focus include: foreclosure prevention and loss mitigation efforts, mortgage loan servicing controls, foreclosed property management and sales processes, compliance with Enterprise mortgage underwriting standards, FHLBank management of advances, and reduction of taxpayer commitments to the conservatorships. FHFA-OIG also is required to meet statutory requirements such as those related to information security management and the protection of personally identifiable information.

EO will maintain the efforts to recruit and retain highly skilled professionals, refine its internal operations, and, when appropriate, comment on pending legislation and regulations. EO also will continue to ensure that FHFA-OIG's work promotes the economy, efficiency, and effectiveness of FHFA programs and operations; prevents and deters fraud, waste, and abuse in such programs and operations; and supports administrative sanctions, civil recoveries, and criminal prosecutions of those responsible for fraud, waste, or abuse in connection with the programs and operations of FHFA.

In-house training programs for all FHFA-OIG employees will continue over the next fiscal year. These programs are designed to educate FHFA-OIG staff on issues of importance in the overall work of FHFA-OIG, as well as expose them to topics that will increase their knowledge of FHFA, the Enterprises, the FHLBanks, and the financial markets.

2. Office of Audits

a. Program Description

The Office of Audits (OA) is led by the Deputy Inspector General for Audits and provides a range of professional audit services for FHFA's programs and operations. In addition, OA conducts investigative support reviews as part of a Civil Fraud Initiative in conjunction with the Department of Justice. OA staff, with support from the Office of Investigations and the Office of Counsel, conducts civil fraud reviews to identify fraud and make referrals for civil actions and administrative sanctions against entities and individuals who commit fraud against FHFA, Fannie Mae, Freddie Mac, or the FHLBanks. Currently, this group is working with various U.S. Attorneys on reviews of lenders' loan origination practices to determine their compliance with Enterprise requirements. Lenders are considered for review through the use of data-mining techniques and requests from government agencies.

Through its performance audits and investigative support reviews, OA helps FHFA: (1) promote economy, efficiency, and effectiveness; (2) detect and deter fraud, waste, and abuse; and (3) ensure compliance with applicable laws and regulations. OA performs its audits and attestation engagements in accordance with the *Generally Accepted Government Auditing Standards.*

b. Significant Accomplishments: FY 2013 through January FY 2014

During FY 2013, OA produced high quality results through a combination of investments in people and processes. Specifically, OA has organized itself into directorates focused upon supervision and regulation, conservatorship management, information management, and resource management. These directorates enable FHFA-OIG to produce a range of audits of FHFA programs and activities with particular emphasis upon its oversight of the GSEs. OA also increased its effectiveness by developing sound working relationships with FHFA and the GSEs, its colleagues in the Inspector General community, and various professional organizations representing industry participants in the mortgage finance market. During FY 2013, OA published a number of major audit reports containing important recommendations to FHFA management and funds put to better use. FHFA has agreed to most of OA's recommendations and has already completed many of them. The following examples reflect FHFA-OIG audit work during FY 2013 through January 2014.

FHFA Should Develop and Implement a Risk-Based Plan to Monitor the Enterprises' Oversight of Their Counterparties' Compliance with Contractual Requirements Including Consumer Protection Laws (AUD-2013-008)

FHFA-OIG undertook this performance audit to assess FHFA's oversight of the Enterprises' counterparties' compliance with contractual requirements including consumer protection laws. The Enterprises provide liquidity to the housing finance market by purchasing and guaranteeing residential mortgage loans ($668 billion for Fannie Mae and $296.6 billion for Freddie Mac during the first nine months of 2012).

The Enterprises' counterparties—the entities that sell and service these loans—commit (represent and warrant), among other things, that the loans comply with all applicable federal and state laws and regulations, including consumer protection statutes. If this is not the case, then the Enterprise can require its counterparty to repurchase the noncompliant loan.

FHFA-OIG found that the Agency should improve its oversight of this area. Currently, the Enterprises do not review the loans they buy at the time of purchase to assess contractual compliance. Instead, they generally rely on their counterparties' representations and warranties that the loans comply with consumer protection laws. For its part, FHFA has not specifically reviewed the manner in which the Enterprises monitor their counterparties' compliance with applicable contractual and legal obligations.

FHFA-OIG recommended that the Agency develop a risk-based plan to monitor the Enterprises' oversight of their counterparties' contractual compliance with applicable laws and regulations. FHFA agreed with the recommendation.

FHFA Oversight of the Enterprises' Deficiency Recovery Programs (AUD-2013-001, AUD-2013-010, AUD-2013-011)

In October 2012, FHFA-OIG issued a report that assessed the Agency's oversight of the deficiency management efforts of the Enterprises. In that audit, FHFA-OIG found that FHFA had an unfulfilled opportunity to provide the Enterprises with guidance about effectively pursuing and collecting deficiencies from borrowers who may possess the ability to repay. In follow-up audits, FHFA-OIG focused in more detail on the Enterprises' deficiency recovery practices for borrowers who possess the ability to pay amounts owed on foreclosed mortgages owned or guaranteed by the Enterprises.

In the follow-up reports, FHFA-OIG concluded that FHFA can improve its oversight of the Enterprises' deficiency recovery processes. First, FHFA-OIG found that Freddie Mac did not refer nearly 58,000 foreclosures with estimated deficiencies of approximately $4.6 billion to its deficiency collection vendors to evaluate the borrowers' ability to repay those deficiencies. Most of these foreclosed mortgages were associated with properties in states where Freddie Mac did not pursue deficiencies but where Fannie Mae did, with some success. Second, delays in the deficiency collection vendors' evaluation process limited Freddie Mac's opportunity to pursue deficiencies related to more than 6,000 foreclosed mortgages for which state statutes of limitations had expired. FHFA-OIG also found that Fannie Mae's deficiency collection vendors generally did not pursue deficiencies on foreclosure sales when, in their view, applicable statutes of limitation for filing deficiency claims against borrowers provided insufficient time to obtain the necessary information from servicers and foreclosure attorneys to evaluate if deficiency balances existed.

FHFA-OIG recommended that FHFA: (1) evaluate periodically the efficiency and effectiveness of Freddie Mac's deficiency recovery strategies for pursuit of borrowers with the ability to repay; (2) review Freddie Mac's monitoring controls over its servicers, foreclosure attorneys, and collection vendors involved in deficiency recovery activities to ensure that oversight across these counterparties is maintained; (3) direct Freddie Mac to establish and implement controls for its counterparties to deliver timely documents to deficiency collection vendors and provide for financial consequences to those counterparties that fail to meet delivery deadlines; and (4) direct the Enterprises to implement a control to consider time frames in state statutes of limitations in prioritizing, coordinating, and monitoring deficiency collection activity for borrowers with the ability to repay.

FHFA provided comments agreeing with the recommendations in these reports.

Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened (AUD-2014-003)

FHFA-OIG undertook this performance audit to assess FHFA's oversight of Fannie Mae's controls over borrower eligibility requirements applicable to its short sale program. Short sales are part of Fannie Mae's loss mitigation strategy to pursue foreclosure alternatives in order to help minimize the severity of losses it incurs because of loan defaults. Borrowers may be eligible for a short sale if they are experiencing a financial hardship that prevents them from making their mortgage payments and can be expected to have difficulty in selling their homes because the current value is less than the amount owed on the mortgage. Fannie Mae depends upon its servicers to collect financial information from borrowers and utilize that information to consider whether borrowers are eligible for a short sale. During 2012, Fannie Mae and its servicers approved over 73,000 short sales.

FHFA-OIG assessed the Agency's oversight of Fannie Mae's borrower eligibility controls. Based on a review of 41 short sale transactions involving multiple Fannie Mae servicers, FHFA-OIG determined that Fannie Mae's servicers did not always collect all of the required documentation before determining eligibility or forwarding the information to Fannie Mae. In addition, servicers did not always conduct adequate reviews supporting borrower eligibility determinations. Further, FHFA-OIG found that borrowers with potentially significant financial resources sold multiple non-owner occupied properties through one of Fannie Mae's programs.

FHFA-OIG recommended that FHFA direct Fannie Mae to strengthen controls over its short sale eligibility processes, including enforcing servicer submission of all required documentation; ensure sufficient servicer eligibility reviews; consider quality in compensating servicers for their eligibility reviews; and improve controls over borrower data collected and considered in the eligibility decision. Additionally, FHFA-OIG recommended FHFA consider whether one of Fannie Mae's short sale programs should be available for non-owner occupied properties, along with increasing its examination coverage of short sales. FHFA agreed with these recommendations.

FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties (AUD-2014-004)

Through its review of closed short sale transactions in another audit on short sale borrower eligibility (AUD-2014-003), FHFA-OIG found that Fannie Mae and its servicers may have improperly collected borrower contributions for short sales of properties in the state of California and under Fannie Mae's Home Affordable Foreclosure Alternatives (HAFA) program. The collection of these borrower contributions prompted Fannie Mae to initiate a remediation plan to return up to $3,173,249 to borrowers who may have been impacted from the short sale of properties located in California and up to $53,000 for HAFA short sales.

Based on FHFA-OIG's work, Fannie Mae developed a remediation plan that was finalized during October 2013 to notify its servicers to refund borrowers the amount of any improper contributions for the short sale of properties located in California that were closed on or after January 1, 2011, as well as the HAFA short sales where borrower contributions were collected. FHFA is currently reviewing Fannie Mae's remediation plan to ensure that borrowers are protected and made whole due to inappropriate borrower contributions. Additionally, FHFA will determine if similar conditions exist at the Federal Home Loan Mortgage Corporation (Freddie Mac) that uses most of the same servicers as Fannie Mae and similarly is handling defaulted loans in California.

Fannie Mae states that the decision to pursue refunds rests with each servicer that reviews the identified cases where improper borrower contributions may have been collected. If the servicer validates that a contribution was not collected or if the servicer has a reasonable basis to support the contribution, a borrower refund may not be required by Fannie Mae. The servicers would also presumably decide whether they believe there was a reasonable basis to collect contributions made while the California law was unclear. As a result, the current remediation plan may not provide for consistent treatment of borrowers by servicers even if borrower circumstances are similar.

FHFA-OIG recommended that the Agency review Fannie Mae's remediation plan and ensure contributions are refunded according to a good faith effort and in a consistent manner for borrowers. In addition, FHFA-OIG recommended that FHFA issue guidance for Fannie Mae to execute the remediation plan, if necessary, and that the Agency review Freddie Mac's controls over borrower contributions in California and issue guidance, if appropriate. Although FHFA stated it agreed with FHFA-OIG's three recommendations, the Agency's actions are not fully responsive and the recommendations are unresolved.

FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections (AUD-2014-005)

FHFA-OIG undertook this performance audit to assess FHFA's oversight of Fannie Mae's reimbursement to its servicers for pre-foreclosure property inspection claims. Fannie Mae and its servicers use property inspections, referred to as pre-foreclosure property inspections, when a borrower becomes delinquent in order to help protect the interest in the mortgaged property from physical conditions that may result in additional credit loss. Fannie Mae requires servicers to perform a monthly inspection on all properties where borrowers have become delinquent, subject to reimbursement limits per loan.

Overall, FHFA-OIG concluded that additional FHFA oversight is needed regarding pre-foreclosure property inspection claims. Specifically, Fannie Mae's process for paying servicer property inspection claims has significant control deficiencies. Further, Fannie Mae does not have system controls to automatically approve, curtail, or reject claims based on Fannie Mae's established reimbursement limits. As a result, Fannie Mae approved inspection claims incorrectly by using processing procedures for other types of reimbursements. These deficiencies caused the Enterprise to overpay servicers by approximately $5 million in 2011 and 2012 for pre-foreclosure property inspection claims in excess of established reimbursement limits.

FHFA-OIG recommended that FHFA direct Fannie Mae to: (1) obtain a refund from servicers for overpayments of property inspection claims; (2) implement system controls to reject property inspection claims over established tolerance limits; and (3) issue guidance to all servicers concerning requirements to adhere to reimbursement limits for property inspection claims. FHFA-OIG also recommended that FHFA assess the need for additional examination coverage of Fannie Mae's pre-foreclosure property inspection reimbursement process. FHFA is taking action that is generally responsive to the recommendations except for obtaining refunds for overpayments of property inspection claims.

c. Planned Activities

During FY 2014, OA plans to complete a number of investigative support reviews, as well as a broad array of performance audits focused on some of the most critical issues facing FHFA and the housing finance market. These audits will cover significant risks related to FHFA's supervision and regulation of the GSEs, FHFA conservator operations, and the internal operations of the Agency.

3. Office of Evaluations

a. Program Description

The Office of Evaluations (OE) is led by the Deputy Inspector General for Evaluations and provides reviews, studies, and analyses of FHFA's programs and operations. In accomplishing its objectives, it draws upon the skills and abilities of an interdisciplinary professional staff whose work touches upon the fields of economics, evaluation, program analysis, law, and statistics. OE performs its evaluations in accordance with CIGIE's *Quality Standards for Inspection and Evaluation*.

In the beginning of FY 2014, OE was expanded when the Office of Policy, Oversight, and Review (OPOR), formerly part of FHFA-OIG's Executive Office, became a division of OE. With incorporation of OPOR into OE there are now three divisions: OPOR; Fraud Prevention and Program Management; and Mortgage, Investment, and Risk Analysis.

b. Significant Accomplishments: FY 2013 through January FY 2014

During FY 2013, OE evaluated the efficacy of internal controls and risk management systems and identified opportunities for FHFA to save taxpayer dollars. OE also identified and highlighted barriers to the success of critical programs administered by FHFA and the Enterprises. OE's focus expands beyond statutory and regulatory compliance and includes assessments of FHFA's fraud prevention controls and the impact of FHFA's and the Enterprises' activities on servicers and the American homeowner.

OE has produced a wide variety of written products tailored to the information and analytic needs of program administrators and the Congress. The following examples reflect recent FHFA-OIG evaluation work.

White Paper: Analysis of the 2012 Amendments to the Senior Preferred Stock Purchase Agreements (WPR-2013-002)

In August 2012, Treasury and FHFA announced a set of modifications to the PSPAs that changed the structure of dividend payments owed to Treasury, increased the Enterprises' rate of mortgage asset reduction, suspended the periodic commitment fee, required that the Enterprises produce annual risk management plans, and exempted dispositions at fair market value under $250 million from the requirement of Treasury consent. This white paper concluded that these modifications would have an impact on the cash flows to and from Treasury, the size of the liquidation preference, and the total amount of Treasury support available to cover Enterprise losses. This white paper also found that deferred tax accounting treatment coupled with the new dividend structure could result in one large dividend payment to Treasury from each Enterprise due to a reversal of their valuation allowances for some or all of their deferred tax assets. This reversal would require the Enterprises to pay Treasury the full amount of the deferred tax assets recognized as positive net worth. These dividend payments will not reduce the amount of Treasury's investment in the Enterprises.

The announcement of the 2012 amendments emphasized three overarching themes: benefiting taxpayers, continuing the flow of mortgage credit, and winding down the Enterprises. The amendments provide the mechanisms to begin achieving these goals, and they position the Enterprises to continue to function in a holding pattern, awaiting major policy decisions.

Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses (EVL-2013-12)

Fannie Mae relies on mortgage servicers to collect mortgage payments from homeowners. When a homeowner fails to make payments on a mortgage, the servicer is required to make various payments, including for property maintenance, insurance, taxes and foreclosure costs. Ultimately, Fannie Mae reimburses the servicers for payments that comply with its Servicing Guide.

FHFA-OIG reviewed FHFA's oversight of Fannie Mae's process for reimbursing servicers for expenses incurred on behalf of delinquent homeowners. FHFA-OIG found that Fannie Mae uses a contractor to manage servicer reimbursement operations, and that Fannie Mae measures the contractor's performance by reviewing a sample of the claims processed for errors. FHFA-OIG assessed the effectiveness of Fannie Mae's controls by analyzing the Enterprise's sampling data. We concluded that analysts working for Fannie Mae's contractor incorrectly approved 3.1 percent of servicer reimbursements in 2012, resulting in $89 million in overpayments to servicers.

We recommended that FHFA ensure that Fannie Mae takes action to reduce processing errors, and that it require Fannie Mae to quantify and report its overpayments to servicers. In addition, we recommended that FHFA publish Fannie Mae's target overpayment reductions and findings. FHFA agreed to require Fannie Mae to take action to reduce its overpayments, but would not agree to publish the results of Fannie Mae's remediation efforts.

FHFA's Oversight of the Federal Home Loan Banks' Compliance with Regulatory Limits on Extensions of Unsecured Credit (EVL-2013-008)

This evaluation report is a follow-up to a report issued in June 2012. That report identified questionable FHLBank unsecured credit risk management practices such as large exposures to counterparties located in the financially troubled Eurozone.[4] It concluded that several FHLBanks violated FHFA's unsecured credit regulatory limits in 2010 and 2011, thereby incurring additional financial risks. FHFA-OIG recommended that FHFA assess FHLBank compliance with its unsecured credit lending limits in its 2012 horizontal review of the FHLBanks.

In the recent report, FHFA-OIG concluded that: (1) FHFA's 2012 horizontal review was thorough; (2) seven FHLBanks violated the regulation over 900 times; and (3) there were unsecured credit risk management deficiencies of varying degrees at the other five FHLBanks. FHFA-OIG recommended that FHFA thoroughly assess the FHLBanks' unsecured credit supervisory requirements in 2013 and 2014 and consider the use of enforcement actions as appropriate to ensure compliance.

Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises (EVL-2014-002)

This evaluation report is a follow-up to a report issued in September 2011. That report identified aspects of the Agency's examination program which gave rise to concerns about the Agency's capacity to meet critical responsibilities. Specifically, FHFA-OIG concluded that FHFA lacked a sufficient number of examiners and that many of its examiners had not been accredited through a professional commission program.

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[4] See, *FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices* (EVL-2012-005) (June 28, 2012) (online at http://fhfaoig.gov/Content/Files/EVL-2012-005_1_0.pdf).

In the follow-up report, we provide an update on the Agency's oversight of the Enterprises. We found that FHFA had addressed some of the issues identified in our September 2011 report, and that it had increased the number of its examiners by about 9 percent. However, we determined that FHFA had not yet developed a systematic process to determine the appropriate size of the core examination teams for the Enterprises. We recommended that the Agency develop such a process to ensure that Enterprise core teams have the staffing necessary to execute their annual examination plans. The Agency agreed with our recommendation.

c. Planned Activities

During FY 2014, OE anticipates focusing its evaluation efforts on several critical areas, including FHFA's management of the Enterprise conservatorships and FHFA's oversight of the FHLBank System.

4. Office of Investigations

a. Program Description

The Office of Investigations (OI) is led by the Deputy Inspector General for Investigations. OI examines in detail the allegations of misconduct and fraud involving the programs and operations of FHFA and the GSEs in accordance with CIGIE's *Quality Standards for Investigations* and guidelines issued by the Attorney General of the United States.

OI investigations address administrative, civil, and criminal violations of laws and regulations that may relate to alleged wrongdoing involving FHFA employees, contractors, consultants, or the GSEs' programs and operations. Investigations may result in charges of mail, wire, bank, accounting, securities, or mortgage fraud, obstruction of justice, money laundering, and violations of the tax code. When an investigation reveals illegal activity, OI refers the matter to the Department of Justice (DOJ) or other state and local prosecutors for possible criminal prosecution or civil enforcement as well as the recovery of monetary damages and penalties. OI reports administrative misconduct to FHFA management officials for consideration of disciplinary or remedial action.

To date, OI has opened numerous non-public criminal and civil investigations, which have so far resulted in over 260 criminal indictments/informations, over 140 convictions and financial fines, and recoveries of over $16.7 billion.

OI also manages FHFA-OIG's Hotline for tips and complaints of fraud, waste, or abuse in FHFA's programs and operations. The Hotline allows concerned parties to report their allegations to FHFA-OIG directly and confidentially. OI honors all applicable whistleblower protections. As part of its effort to raise awareness of fraud, OI actively promotes the Hotline through FHFA-OIG's website, posters, emails to FHFA and GSE employees, and FHFA-OIG's semiannual reports.

b. Significant Accomplishments: FY 2013 through January FY 2014

By the end of FY 2013, OI had participated in over 295 criminal, civil, and administrative investigations. Pursuant to Federal law and FHFA-OIG policy, FHFA-OIG is not at liberty to discuss investigative information, such as arrests, indictments, or convictions that have not been already disclosed to the public. A few examples of publicly disclosed investigations to which FHFA-OIG contributed in FY 2013 through January 2014 are discussed briefly below.

Residential Mortgage Backed Securities Working Group

FHFA-OIG continued to participate actively in the Residential Mortgage Backed Securities (RMBS) Working Group established in 2012. The RMBS Working Group identifies and investigates those individuals and entities that fueled the financial crisis through misconduct in the pooling and sale of residential mortgage-backed securities. The RMBS Working Group is a collaborative effort on the part of dozens of federal and state law enforcement agencies and the DOJ.

FHFA-OIG's participation has included, among other things, investigating fraud allegations involving individuals and financial institutions, providing background and strategic litigation advice with regard to the RMBS market, and supporting federal and state prosecutors with resources to review the significant quantity of documentary evidence collected by various RMBS Working Group investigations. To date, four cases in which FHFA-OIG played a significant role have been prosecuted by members of the RMBS Working Group:

- The New York Attorney General instituted civil proceedings against both JPMorgan Chase (successor in interest to Bear Stearns) and Credit Suisse alleging violations of the New York State Martin Act in connection with the sale of RMBS.
- The United States Attorney for the Western District of North Carolina instituted civil proceedings against Bank of America and certain of its affiliates alleging, among other things, that Bank of America defrauded investors, including federally insured financial institutions in violation of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).
- The U.S. Attorney for the Southern District of New York filed a civil mortgage fraud lawsuit against Bank of America Corporation and its predecessors, Countrywide Financial Corporation, Countrywide Home Loans, Inc., and former

Countrywide executive Rebecca Mairone for engaging in a scheme to defraud the Enterprises. The complaint seeks damages and civil penalties under the False Claims Act and FIRREA. Specifically, the complaint alleges that from 2007 through 2009, the defendants implemented a loan origination process known as the "Hustle." The Hustle was designed to process loans at high speed and without quality checkpoints. According to the complaint, the Hustle generated thousands of fraudulent and otherwise defective residential mortgage loans that were later sold to the Enterprises and caused over $1 billion in losses and countless foreclosures. The government amended its complaint on January 11, 2013, among other things, to add a claim for Rebecca Mairone, who was responsible for implementing the Hustle. On October 12, 2013, a federal jury in Manhattan found Bank of Corporation and its predecessors, Countrywide Financial Corporation, Countrywide Home Loans, Inc., and former Countrywide executive Rebecca Mairone liable for fraud. Originally the government requested up to $863 million in damages based upon the net profit Bank of America and Countrywide made from "Hustle" loans to the Enterprises. On January 30, 2013, the U.S. Attorney for the Southern District of New York asked a judge to order Bank of America and Countrywide to pay $2.1 billion based on gross revenue that was made from sales of the loans to the GSEs.

- On November 19, 2013, JPMorgan reached a $13 billion settlement with DOJ. JPMorgan's $13 billion settlement with the Justice Department was related to the bank's role in marketing Residential Mortgage-Backed Securities (RMBS) that did not comply with underwriting guidelines and weren't fit for sale. This $13 billion settlement satisfied all pending civil cases brought against JPMorgan by, among others, private investors; Fannie Mae and Freddie Mac; and State Attorneys General's Offices. With regard to the sale of RMBS, JPMorgan falsely represented that the underlying mortgage loans complied with certain underwriting guidelines and standards, including representations that significantly overstated the ability of the borrowers to repay their mortgage loans. These representations were material to reasonable investors.

American Mortgage Field Services

American Mortgage Field Services (AMFS) was contracted by Bank of America to conduct inspections of REO properties owned by Fannie Mae. AMFS devised a scheme pursuant to which it fraudulently certified that it inspected Fannie Mae's REO properties. As a result of the investigation, it was determined that AMFS fraudulently billed Bank of America in excess of $12 million, causing Bank of America to bill Fannie Mae for the same amount.

The President (owner), Vice President, and other officials of AMFS were criminally charged as a result of this investigation. The President was sentenced to eight years in prison and ordered to pay restitution of $12,774,102. The Vice President pleaded guilty to one count of conspiracy to commit wire fraud and is awaiting sentencing.

HomeFirst Realty Group Inc.

On May 31, 2012, Federal indictments were unsealed against ten defendants in connection with fraudulently obtaining mortgages for the purchase of condominium units at Marina Oaks Condominiums in Fort Lauderdale, FL. The indictments allege that the defendants fraudulently obtained $39 million in mortgage loans that they sold to Fannie Mae and Freddie Mac.

Between April and July 2013, the ten defendants were sentenced to prison for periods ranging from 16 to 22 years.

Coastal States Mortgage Corporation

In late 2011, Freddie Mac began to question the servicing practices of the Coastal States Mortgage Corporation (CSM). This happened after Freddie Mac identified multiple performing loans in CSM's portfolio that had additional loans from different financial institutions. In 2012, Freddie Mac and Fannie Mae conducted an onsite inspection of CSM and determined that CSM was withholding loan payoff proceeds and did not remit them as required. The investigation determined that over $18 million in loan payoffs were withheld by CSM.

In August 2013, the Vice President of CSM pleaded guilty to conspiracy to commit wire fraud intended to defraud government-sponsored enterprises, Fannie Mae and Freddie Mac, and was sentenced to five years imprisonment.

All World Realty Enterprises and Homesavers, LLC

From 2006 to November 2008, the owner of All World Realty Enterprises and Homesavers, LLC (AWRE&H), conspired with others to defraud mortgage lenders and financial institutions by obtaining millions of dollars in fraudulent mortgages for the purchase of dozens of multifamily properties in New Haven, CT. In addition, AWRE&H fraudulently obtained more than $1 million in real estate loans.

As part of the schemes, the conspirators agreed to accept significantly lower contract prices, which were not disclosed to the lenders. Some of the conspirators submitted false HUD-1 forms, verifications of employment, and other false loan documents. As a result, more that $10 million in fraudulent mortgages was originated on over 40 properties, all of which were purchased and securitized by Fannie Mae and Freddie Mac. In May 2013, the defendant pleaded guilty to conspiracy to commit mail fraud and bank fraud and was sentenced on September 12, 2013, to 48 months imprisonment.

Nationwide Fraud Costs up to $20 Million, San Diego, CA

Two defendants involved in a $100 million mortgage fraud scheme were sentenced in December 2013. One defendant received three years' probation, 15 months home confinement, and was ordered to pay a $2,500 fine. The other defendant received five years' probation and was ordered to pay $532,687 in restitution. A third defendant was sentenced in January 2014 to 15 months' incarceration and 36 months' probation and was ordered to pay $532,687 in restitution. The pleas occurred in the U.S. District Court for the Southern District of California.

The defendants participated in a nationwide loan origination fraud and kickback scheme, defrauding lenders through the sale of $100 million of real estate at inflated prices. Purchasers of the fraudulently originated loans, including Fannie Mae and Freddie Mac, suffered losses of up to $20 million.

Texas Realtors Charged in $8 Million Mortgage Fraud Scheme

On October 9, 2013, two realtors were indicted for conspiracy to commit money laundering, for their participation in an illegal property flipping scheme. The defendants purchased homes in North Texas cities in their names or in their associate's parents' names at market value. The homes were then flipped using straw-buyers with bogus appraisals reflecting much higher values. False notarized loan documents were submitted to lenders, and one of the defendants acted as the loan officer on some of the properties. The defendants paid the down payments, which were not disclosed on financing documents. The defendants flipped 26 properties resulting in fraudulent loans totaling over $8 million. All of the properties were foreclosed or sold by short-sale. The scheme caused a loss of approximately $2,041,439 to Fannie Mae and $4,308,000 to Freddie Mac.

c. Planned Activities

In FY 2014, OI will continue to support the RMBS Working Group and its investigations involving fraudulent or overvalued securities sold to the GSEs and the FHLBanks. Since October 1, 2013, OI has opened over 30 new investigations and obtained 32 indictments and 26 convictions.

In addition, we continue to develop working partnerships and information-sharing relationships with federal, state, and local law enforcement agencies. These partnerships/relationships will be designed to leverage FHFA-OIG's resources. For example, OI has continued to work closely with the Department of Treasury's Financial Crimes Enforcement Network (FinCEN) to review allegations of mortgage fraud. OI has assigned an Investigative Analyst to work with FinCEN's Office of Law Enforcement Support to refine FHFA-OIG's analytical efforts to support complex mortgage fraud cases nationwide. OI also works with the National Center for Disaster Fraud to manage its Hotline Operations; procedures for Hotline operations were recently reviewed and updated. By consolidating all FHFA-OIG Hotline operations to include emails, phone calls, mail, and faxed complaints, OI has improved its efficiency and response time.

Finally, OI continues to open small investigative field offices throughout the United States to reduce travel time and other administrative expenses as well as expedite the resolution of investigations.

5. Office of Administration

a. Program Description

The Office of Administration (OAd) is led by the Deputy Inspector General for Administration. OAd manages and oversees FHFA-OIG's administrative functions, including human resources, budget development and execution, financial management, information technology, facilities and property management, safety, and continuity of operations. OAd provides the administrative support staff required for FHFA-OIG to accomplish its work, while ensuring compliance with all federal statutes, regulations, and directives relating to administrative management in the Federal Government.

b. Significant Accomplishments: FY 2013 through January FY 2014

OAd continued to coordinate FHFA-OIG recruitment efforts designed to maintain an expert cadre of seasoned investigators, evaluators, auditors, attorneys, subject matter experts, and administrative support staff.

OAd developed models for conducting FHFA-OIG's financial testing and auditing activities in accordance with guidelines included in OMB Circular A-123 internal control materials. OAd conducted these control assessments on FHFA-OIG areas specifically tied to the FHFA and FHFA-OIG consolidated financial statement. OAd conducted the assessments of financial controls and processes both internally and at the Bureau of Fiscal Service, FHFA-OIG's financial and accounting service vendor.

OAd continued implementation of the infrastructure necessary to fulfill FHFA-OIG's mission, including obtaining office space, information technology resources, and communications systems.

OAd has been FHFA-OIG's focal point for developing policies and procedures, particularly those related to administrative programs, financial management, and human resources. During FY 2013, OAd developed or updated many policies and procedures to guide FHFA-OIG's operations.

c. Planned Activities

During FY 2014, OAd anticipates focusing its efforts on the continued refinement of administrative operations at FHFA-OIG through internal risk assessments and risk-based programmatic testing. OAd continues its special emphasis on Information Security and Privacy programs, its impact on the FHFA annual financial statement audit, and ongoing financial testing as it relates to OMB Circular A-123.

III. THE FY 2015 PERFORMANCE PLAN

FHFA-OIG reports its budget and operational activities through the resource management strategy portion of FHFA's budget. However, FHFA-OIG is an independent office that reports to both the head of FHFA and the Congress. For this reason, FHFA-OIG has developed its own strategic goals and objectives. Although aligned with FHFA's strategic goals, FHFA-OIG's goals are premised on its statutory responsibilities and addressing identified risks.

The following sets forth FHFA-OIG's strategic goals, objectives, and performance measures.

FHFA-OIG Strategic Goal 1: Promote FHFA's effective oversight of the GSEs' safety and soundness, and housing missions.

Objective 1: Promote effective risk oversight by FHFA.

To achieve this objective, FHFA-OIG is committed to:

- Assessing FHFA's oversight of the FHLBanks' and Enterprises' management of credit, interest rate, operational, and other risks.
- Reporting on FHFA's current and future directives and regulations relating to risk.

Objective 2: Assess FHFA's oversight of the GSEs' housing mission and goal responsibilities.

To achieve this objective, FHFA-OIG is committed to:

- Consistent with the Inspector General Act, reviewing and reporting on FHFA's legislative and policy initiatives.
- Reporting on FHFA's efforts to ensure access to mortgage credit.
- Reporting on the Enterprises' home retention programs.
- Reporting on the Enterprises' oversight of servicers' administration of delinquent and defaulted loans.
- Reporting on the FHLBanks' housing mission activities.

Objective 3: Assess the effectiveness of FHFA's operations.

To achieve this objective, FHFA-OIG is committed to:

- Reporting on FHFA's use of technology and its security, contracting, and human capital management.

- Assisting FHFA in the early detection and prevention of fraud, waste, and abuse in the GSEs' programs and operations.

Performance Measures in Support of FHFA's Effective Oversight of the GSEs

	Performance Indicators		
	FY 2014 Target	FY 2015 Target	FY 2016 Target
Percentage of work products related to the FHFA effective oversight of the GSEs' safety and soundness, and housing missions	30%	30%	30%
Percentage of work products related to FHFA's internal operations	15%	15%	15%
Percentage of recommendations agreed to by management	90%	90%	90%
Number of outreach presentations provided to Federal Home Loan Banks, GSE field locations, and top 10 seller servicers	8	8	8

FHFA-OIG Strategic Goal 2: Promote FHFA's effective management and conservatorship of the Enterprises.

Objective 1: Assess FHFA's and Enterprises' plans and progress on their strategic goals.

To achieve this objective, FHFA-OIG is committed to:

- Reporting on FHFA's plans and progress in meeting its strategic and conservatorship goals, such as contracting the Enterprises' market presence.
- Contributing to the dialogue on GSE reform through independent fact finding and objective analysis.

Objective 2: Assess FHFA's effectiveness in controlling the costs of the conservatorships.

To achieve this objective, FHFA-OIG is committed to:

- Reporting on FHFA's effectiveness in controlling the costs of the conservatorships, such as costs related to Enterprise Real Estate Owned (REO) management.
- Reporting on fraud, waste, and abuse.

**Performance Measures in Support of FHFA's
Effective Management and Conservatorship of the Enterprises**

	Performance Indicators		
	FY 2014 Target	FY 2015 Target	FY 2016 Target
Percentage of OIG work products related to FHFA's effective management and conservation of the Enterprises	30%	30%	30%
Percentage of recommendations agreed to by management	90%	90%	90%

FHFA-OIG Strategic Goal 3: Promote effective FHFA internal operations.

Objective 1: Detect and deter fraud, waste, and abuse.

To achieve this objective, FHFA-OIG is committed to:

- Providing Systemic Implications Reports on management weakness discovered in the course of investigations or through trend analyses.
- Advising FHFA on issues relating to compliance, internal controls, and fraud prevention.
- Engaging in outreach to FHFA employees and stakeholders on fraud, waste, and abuse.
- Investigating and reporting on fraud, waste, and abuse.

Performance Measures in Support of Effective FHA Internal Operations

	Performance Indicators		
	FY 2014 Target	**FY 2015 Target**	**FY 2016 Target**
Percentage of criminal investigative cases presented for prosecution are accepted	70%	70%	70%
Number of fraud awareness presentations provided to FHFA and stakeholders	50	50	50

FHFA-OIG Strategic Goal 4: Promote effective OIG internal operations.

Objective 1: Maintain workforce expertise and collaboration to meet goals.

To achieve this objective, FHFA-OIG is committed to:

- Recruiting, retaining, training, and developing a stable workforce.
- Ensuring succession plans, cross training, and critical expertise.
- Sharing information on OIG operations, plans, surveys, data, findings, results, and the disposition of referrals and recommendations across offices.

Objective 2: Maintain access and data security protocols with FHFA and the GSEs.

To achieve this objective, FHFA-OIG is committed to:

- Maintaining formalized protocols of data access, security, and storage with FHFA and the GSEs as appropriate.
- Centralizing internal processes for data.

Objective 3: Ensure reporting processes are useful to stakeholders.

To achieve this objective, FHFA-OIG is committed to:

- Communicating with FHFA officials, Congress, and other stakeholders on reports.

Performance Measures in Support of Effective OIG Internal Operations

	Performance Indicators		
	FY 2014 Target	**FY 2015 Target**	**FY 2016 Target**
OIG staff receive continuing professional education as required by CIGIE standards	100%	100%	100%
Maintain access and data security protocols with FHFA and the GSEs	Meets	Meets	Meets
Enhance information sharing among OIG offices	Meets	Meets	Meets
Percentage of superior and highly satisfactory ratings on an annual administrative support survey	80%	80%	80%