



**Federal Housing Finance Agency
Office of Inspector General**

**FISCAL YEAR 2016
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 \$49,900,000—to be assessed from FHFA’s regulated entities—and 155 Full Time Equivalents (FTE) for its operations during FY 2016. This request represents a \$1,900,000 increase from FHFA-OIG’s FY 2015 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 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, and subsequently by the end of September 2014 the Enterprises paid Treasury \$218.7 billion.

The Enterprises provide critical support to the nation’s housing market and economy and 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, and abuse in them.

1. Background

FHFA-OIG commenced operations in October 2010. From the outset, FHFA-OIG sought to balance the need for robust oversight of FHFA and the GSEs with the Administration’s commitment to impose fiscal austerity in government programs. The proposed budget strikes an appropriate balance between these two ends. It is important to support robust oversight of FHFA and the GSEs, 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 Enterprises (\$187.5 billion), their uncertain future, and the current fragility of the housing market.

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 just over \$5 trillion in mortgages.

In order to properly review FHFA's operations, FHFA-OIG must delve into its regulatory 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 avoid 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, 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.

To guide its operations, FHFA-OIG created a Strategic Plan that describes its vision, mission, strategic goals, and objectives. To access the plan, see www.fhfaig.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, Executive Office senior staff, and five operating offices. FHFA-OIG operating offices include the Office of Audits, the Office of Compliance, the Office of Evaluations, the Office of Investigations, 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 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 Compliance is a new office responsible for ensuring that the proper resolution and implementation of monetary and non-monetary FHFA-OIG findings and recommendations have been adequately fulfilled. This office will improve the effectiveness of recommendations made by FHFA-OIG.

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, which includes the operations of 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) serving simultaneously as both the Enterprises' conservator and regulator; and (2) 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

Cumulatively through December 2014, FHFA-OIG completed the following:

- **Investigative Activities:** FHFA-OIG investigators have participated in numerous criminal, civil, and administrative investigations, resulting in over 451 criminal indictments/informations and over 282 convictions.
- **Monetary Benefits:** FHFA-OIG is a results driven agency. Since inception of this organization we have been instrumental in activities resulting in \$2.8 billion in recoveries, \$3.9 billion in restitutions, and \$32.9 billion in financial settlements (see eighth annual Semiannual Report www.fhfaoig.gov/Content/Files/EighthSemiannualReport.pdf). Additionally we identified \$1.3 billion in funds put to better use, questioned costs, and unsupported costs and fines.
- **Published Reports:** FHFA-OIG has published more than 104 audits, evaluations, white papers, management letters, and alerts. A comprehensive list of these publications and full copies of these reports are accessible on our website: www.fhfaoig.gov/Reports/AuditsAndEvaluations.
- **Recommendations to FHFA:** FHFA-OIG has provided about 218 recommendations in its audits and evaluations, 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 eight Semiannual Reports to the Congress from beginning operations in October 2010 to September 2014, with issuance of the ninth anticipated for spring 2015. To access all reports, see: www.fhfaig.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: www.fhfaig.gov/LearnMore.

E. PLANNED ACTIVITIES

In FY 2015, FHFA-OIG anticipates publishing 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 of the FHLBank System, and FHFA's internal operations. Specifically, FHFA-OIG plans to initiate audits and evaluations concerning conservatorship operations, Enterprise supervision, nonbank sellers, and information technology security. FHFA-OIG also 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, which includes the operations of Fannie Mae, Freddie Mac, and the FHLBanks.

FHFA-OIG will also continue to offer the support of its dedicated Investigative Counsel—attorneys with criminal prosecution experience—to U.S. Attorneys Offices and law enforcement agencies to assist in investigating and prosecuting FHFA-OIG cases.

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

F. SUMMARY OF FY 2016 BUDGET REQUEST

FHFA-OIG requests \$49,900,000 and 155 FTE for its operations during FY 2016. This request represents an increase of \$1,900,000 from FHFA-OIG's FY 2015 budget of \$48,000,000 and demonstrates our commitment to responsible stewardship of scarce resources in a tight fiscal climate.¹

¹ The FY 2016 request assumes that the entire \$49,900,000 will be funded via GSE assessments as FHFA-OIG anticipates little to no carry-forward from the prior year.

FHFA-OIG's budget request reflects an appropriate progression in its oversight priorities, resulting from the dynamic risk profile of FHFA and the regulated entities in the half-decade since the recent financial crisis. The establishment of FHFA-OIG in October 2010 created an organization responsible for monitoring a parent agency that had lacked independent oversight for more than two years. As a result, FHFA-OIG's initial efforts focused on retrospective assessments of the Agency's performance as regulator and conservator, the regulated entities' role in the financial crisis, and their evolving practices and fortunes. FHFA-OIG remains attentive to these issues, and finds that both FHFA and the regulated entities have made significant improvements as a result of various FHFA-OIG recommendations over the past several years. Going forward, FHFA-OIG recognizes that monitoring their compliance with those recommendations is tantamount to the success of the recommendations.

It also has become clear that FHFA-OIG's continued effectiveness requires enhanced assessments of not only current but future risk for FHFA and GSE programs. To support both of these efforts in FY 2016, FHFA-OIG requests an additional \$.9 million and 5 FTE to augment our analytical rigor to monitor compliance with recommendations and further enhance our risk assessment activities. The additional FTE will utilize data mining, statistical research, and risk-modeling to make recommendations for process, culture, and infrastructure improvements at FHFA-OIG, and thereby enable FHFA-OIG to improve its oversight of the Agency and the regulated entities.

In order to maintain our current staffing levels, we also request \$1 million to offset anticipated inflationary costs. For the first five years of FHFA-OIG operations we leveraged efficiencies in start-up and other discretionary costs annually to avoid increasing our budget. This approach is no longer feasible and this budget request will provide FHFA-OIG with the funds necessary to continue important activities across the organization.

II. BUDGET JUSTIFICATION

A. BUDGET TABLES

3-Year Budget History Table

Estimate to Congress	FY 2014 Actual²	FY 2015 Estimate	FY 2016 Request
Budget Request	\$48,000,000	\$48,000,000	\$49,900,000
<i>FTE</i>	<i>150</i>	<i>150</i>	<i>155</i>

Amounts Available for Obligation
(Dollars in Thousands)

	2014 Actual	2015 Estimate	2016 Request
Budget Authority			
Unobligated balance, start of year	\$6,360	\$1,299	\$0
Unobligated balance adjustments	\$0	-\$29	\$0
Annual assessment estimate	\$41,640	\$46,730	\$49,900
Subtotal Amount Available for Obligation	\$48,000	\$48,000	\$49,900
Estimated Total Obligations	\$47,870	\$48,000	\$49,900
Unobligated balance, current year funds	\$130	\$0	\$0
Estimated prior year net recoveries	\$1,169	\$0	\$0
Subtotal unobligated balance, year end	\$1,299	\$0	\$0

² FHFA-OIG did not receive appropriations during FYs 2011, 2012, 2013, 2014, or 2015. Pursuant to section 1106 of HERA, FHFA assessed the GSEs to support the operations of FHFA-OIG in FYs 2011-2015, and we anticipate the same in FY 2016. Further, the FY 2016 budget estimate and request includes proposed appropriations language in support of \$49,900,000 in assessments for the operations of FHFA-OIG.

Explanation of Changes: Dollars and FTE
(Dollars in Thousands)

	FTE	Budget Authority
2015 Actual	150	\$48,000
2016 Request	155	\$49,900
Net Change	5	\$1,900
Maintaining Current Levels		
FY 2016 estimated pay raise and other inflationary costs not absorbed in base (adjustment of 2.1% overall)	0	\$1,000
Program Change:		
Risk Analysis and Recommendations Compliance Activities	5	\$900

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, \$49,900,000, to remain available until September 30, 2017, 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.

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 2016:

- The aggregate budget request for the operations of FHFA-OIG is \$49,900,000 and 155 FTE;
- The 2016 budget also includes funding to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE); and

- The portion of this amount needed for FHFA-OIG training is \$625,000. This amount fully funds FHFA-OIG training needs for FY 2016.³

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 the Fiscal Service 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 Audits staff to acquire 80 hours of job-related training every two years. Similarly, professional standards require FHFA-OIG to provide Evaluations staff with 40 hours of job-related training biennially, but to strive to provide 80. In compliance with the applicable standard and to promote interoperability of audit and evaluative staff, FHFA-OIG provides 80 hours of job-related training to evaluators every two years.

Budget by Object Classification (BOC)

BOC	Estimated Obligations by Object Classification	FY 2014 Actual	FY 2015 Estimate	FY 2016 Request
11.1	Full Time Permanent	\$19,525,000	\$21,401,000	\$22,975,000
11.5	Other Personnel Compensation	<u>1,419,000</u>	<u>1,480,000</u>	<u>1,500,000</u>
11.9	Total Personnel Compensation	<u>\$20,944,000</u>	<u>\$22,881,000</u>	<u>\$24,475,000</u>
12.1	Civilian Personnel Benefits	8,060,000	8,598,000	8,913,000
21.0	Travel and Transportation of Persons	813,000	821,000	869,000
22.0	Transportation of Things	26,000	19,000	19,000
23.1	Rental Payments to GSA	450,000	869,000	879,000
23.2	Rental Payments to Others	31,000	66,000	66,000
23.3	Communications, Utilities, and Miscellaneous Charges	1,173,000	1,174,000	1,174,000
24.0	Printing and Reproduction	32,000	51,000	52,000
25.1	Advisory and Assistance Services	3,130,000	2,851,000	2,912,000
25.2	Other Services	1,612,000	1,604,000	1,683,000
25.3	Purchases of Goods and Services from Government Accounts	8,345,000	6,743,000	6,778,000
25.4	Operation and Maintenance of Facilities	1,000	1,000	1,000
25.7	Operation and Maintenance of Equipment	382,000	238,000	238,000
26.0	Supplies and Materials	617,000	530,000	537,000
31.0	Equipment	1,881,000	1,279,000	1,279,000
32.0	Land and Structures	373,000	275,000	25,000
	Total (Lines 11.9 – 32.0)	\$47,870,000	\$48,000,000	\$49,900,000

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.

The Office of External Affairs is also within EO and is responsible for government and public relations. The Office of External Affairs responds to inquiries from, among others, the press and Members of Congress. Additionally, it prepares FHFA-OIG's semiannual reports.

b. Significant Accomplishments in FY 2014

During FY 2014, EO further refined 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.

c. Planned Activities

During FY 2015, EO will continue to provide direction and leadership to the Offices of Audits, Compliance, Evaluations, Investigations, and Administration. Promoting the effective and efficient production of independent, timely, relevant, and objective surveys, audits, evaluations, risk assessments, and investigations will remain a high priority for the 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 *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 reviews of conservatorship operations, Enterprise supervision, nonbank sellers, and information technology security. Areas of current focus include: reviewing the Conservator's decisions; assessing FHFA's governance practices, internal controls, decision-making process, and follow-up/compliance activities; evaluating Conservator initiatives; considering FHFA's processes for identifying risks and allocating resources; reviewing its targeted examinations and ongoing monitoring; evaluating its remediation of examination findings; analyzing the risk posed by an increased business volume of nonbank sellers; assessing the adequacy of FHFA's oversight of the Enterprises' controls for nonbank sellers; studying the Enterprises' controls for nonbank sellers; examining the adequacy of FHFA's oversight of the Enterprises' controls for nonbank sellers; and studying the GSEs' controls for information technology security. 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 detects fraud, waste, and abuse in such programs and operations; and supports administrative sanctions, civil recoveries, and criminal prosecutions 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 staff on issues of importance in the overall work of FHFA-OIG, as well as introduce 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.

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 in accordance with the *Government Auditing Standards*.

b. Significant Accomplishments in FY 2014

During FY 2014, OA produced high quality results through a combination of investments in people and processes. FHFA-OIG produced a range of audits on FHFA programs and activities, with particular emphasis on supervision, regulation, and conservatorship management of the

GSEs. OA also increased its effectiveness by continuing development of 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 2014, OA published a number of major audit reports containing important recommendations to FHFA management and identifying funds that could be put to better use. FHFA has agreed to most of OA's recommendations; following are examples of two significant reports:⁴

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

Fannie Mae and its servicers use property inspections, referred to as pre-foreclosure property inspections, when a borrower becomes delinquent. One of the objectives of the inspections is to help protect the Enterprise's 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.

⁴ All of FHFA-OIG's audit, evaluation, and whitepaper reports may be accessed at www.fhfaog.gov/Reports/AuditsAndEvaluations.

FHFA disagreed with three of the four recommendations in this report; however, FHFA is taking action that FHFA-OIG considers responsive to the recommendations, except for obtaining refunds for overpayments of property inspection claims.

[FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines \(AUD-2014-018\)](#)

The Enterprises use a delegated business model to buy and service mortgage loans. They contract with third-party mortgage loan sellers and/or servicers (such as banks) and rely on them to comply with requirements for: (1) originating loans that the Enterprises buy; (2) servicing the purchased loans (e.g., collecting payments); and (3) reporting data about the loans. The Enterprises rely on the counterparties for compliance and reporting, and thus run the risk of counterparties failing to meet selling and servicing guidelines. Assurance regarding compliance with selling requirements is particularly important in light of new limits on how long Fannie Mae and Freddie Mac have to perform quality control activities on loans being acquired and to make decisions about whether sellers need to repurchase noncompliant loans. As such, increased reliance is being placed on controls at the sellers. To better assess the operational and financial risks posed by these counterparties, FHFA-OIG reviewed FHFA's oversight of how the Enterprises ensure their counterparties comply with their requirements.

FHFA-OIG concluded that the Enterprises could require independent assurance that counterparties are complying with their selling and servicing requirements as a complement to other monitoring controls already in place. As examples of best practice, federal agencies involved in the mortgage market, such as the SEC and HUD, and private investors in MBS commonly require independent assurance of counterparty compliance. Also, in December 2013, one Enterprise's internal audit function proposed using independent, third-party attestations of compliance with selling and servicing guidelines, but the merits of the proposal were not assessed by either the Enterprise or FHFA.

FHFA-OIG recommended that FHFA direct the Enterprises to assess a risk-based approach to having their counterparties obtain independent, third-party attestations of their compliance with origination and servicing requirements to increase assurance that the \$4.8 trillion in Enterprise-owned and -guaranteed mortgages are appropriately originated and serviced. Such attestations could complement, but not replace, Fannie Mae's and Freddie Mac's onsite reviews and other performance monitoring controls. The attestations can be implemented in a manner that balances their cost-benefit with a given counterparty's size, complexity, performance, and other factors.

FHFA did not agree with FHFA-OIG's recommendation. FHFA-OIG is requesting that FHFA reconsider its disagreement with the recommendation and submit a revised response.

c. Planned Activities

OA plans to complete 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 Enterprises' business with nonbank sellers and their information technology security.

3. Office of Compliance

The Office of Compliance (OCom) will perform follow-up testing and verification on recommendations in an ongoing systematic process designed to (1) monitor recommendations to ensure that they are promptly implemented, and (2) assess the effectiveness of the corrective actions taken by FHFA or the Enterprises in response to FHFA-OIG recommendations. OCom will monitor and track recommendations and also test the controls as submitted to verify proper implementation of measures taken to meet the recommendations or acceptable alternatives. OCom will serve as the central repository of documentation related to recommendation close out. Additionally, OCom will be responsible for tracking and reporting monetary and non-monetary benefits of implemented recommendations.

4. 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, OE draws upon the skills and abilities of an interdisciplinary professional staff whose work touches upon the fields of economics, law, bank examination, evaluation, program analysis, securities, risk, and statistics. OE performs its evaluations in accordance with CIGIE's *Quality Standards for Inspection and Evaluation*.

OE is divided into three divisions: Oversight & Review; Program Oversight; and Supervision and Regulation. In addition to the three divisions, the office has a "Senior Counsel for Securitization & Risk," who both leads studies and serves as an expert resource for other FHFA-OIG personnel.

b. Significant Accomplishments in FY 2014

During this fiscal year, OE evaluated the efficacy of internal controls and risk management systems and identified opportunities for FHFA to save and recover taxpayer dollars. It also identified and highlighted barriers to the success of critical programs administered by FHFA and the Enterprises (e.g., the Servicing Alignment Initiative). OE's focus expanded beyond statutory and regulatory compliance and included assessments of the changing business environment faced

by the Enterprises and the impact of FHFA's and the Enterprises' activities on servicers and the American homeowner.

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

[FHFA's Oversight of the Servicing Alignment Initiative \(EVL-2014-003\)](#)

As the Enterprises' conservator, FHFA established the Servicing Alignment Initiative (SAI) in April 2011 to improve servicers' performance and thereby limit the Enterprises' financial losses. SAI consists of a series of FHFA directives that set forth contractual requirements that the Enterprises must incorporate into their servicing guidelines. Servicers must comply with these guidelines when managing the accounts of financially distressed borrowers. For example, servicers are required to respond to borrowers' requests for assistance within specified time frames, and conduct loan modifications and foreclosures pursuant to procedures and deadlines prescribed by FHFA.

Our evaluation assessed FHFA's oversight of SAI since the establishment of the program in 2011. Specifically, we evaluated FHFA's monitoring of Enterprise servicers' compliance with SAI guidelines and found it to be limited.

FHFA's Division of Housing Mission and Goals (DHMG), which established SAI, has primary responsibility within the Agency for overseeing the program. DHMG reviewed the Enterprises' servicing guidelines prior to publication in 2011 to ensure that FHFA's SAI-related directives were incorporated.

However, DHMG's SAI oversight has significant limitations. DHMG has neither reviewed nor evaluated the servicers' overall compliance with SAI's numerous requirements since establishing the program in 2011. Moreover, DHMG does not require the Enterprises to submit for its routine review and assessment their critical reports on servicer compliance with SAI's requirements. Consequently, DHMG has not determined whether the servicers are complying with SAI or if the initiative is achieving its intended purpose.

We analyzed the reports by which the Enterprises monitor their servicers' compliance with SAI. The reports identified servicer compliance deficiencies in key SAI areas, such as responding to borrower requests for assistance and executing loan modifications. DHMG has not received these reports on a regular basis. Consequently, DHMG has missed opportunities to learn about servicer compliance deficiencies that could undermine SAI's effectiveness. It has also compromised FHFA's ability to oversee the Enterprises' efforts to correct their servicers' SAI compliance deficiencies.

We recommended that DHMG's Deputy Director: (1) establish an ongoing process to evaluate servicers' SAI compliance and the effectiveness of the Enterprises' remediation efforts; (2) direct the Enterprises to provide their internal reports and reviews for DHMG's assessment; and (3) regularly review SAI-related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.

FHFA partially agreed with all recommendations and committed to providing related documents by February 15, 2015. We concluded from the Agency's response, however, that the Agency did not plan to alter substantively its limited oversight of SAI. We remain concerned as to the Agency's practices in this regard.

[FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs \(EVL-2014-009\)](#)

This report noted a significant change in the business environment impacting the FHLBank system. Ordinarily, FHLBanks make loans—called “advances”—to their members. However, since the housing crisis of 2008, the FHLBanks' advance business had declined 62% by March 2012. Since that time, advances began a steep climb, largely due to advances to the four largest members of the FHLBank system.

The report reviewed the causes of the recent surge in advances to the four largest members and concluded that it was attributable, in large part, to new bank liquidity standards established by the Basel Committee on Bank Supervision in December 2010. As detailed in the report, under the new standards, banks are required to increase their holdings of high quality liquid assets, such as U.S. Treasury securities. In order to meet the new standards, some banks have taken FHLBank advances in order to purchase the more liquid securities required.

The report noted both advantages and risks inherent in the business environment caused by the Basel Committee's new standards. In particular, while FHFA-OIG acknowledged the advantage to the FHLBanks of this increase in their core business activity, it noted that an increase in advances caused by matters unrelated to housing could call into question the FHLBanks' housing mission.

FHFA-OIG recommended that the Agency publicly report on FHLBank advances to large and other members in 2014, emphasizing the consistency of such advances with the safety and soundness of the FHLBank system, as well as the Banks' housing mission. The Agency agreed with the recommendation.

c. Planned Activities

During FY 2015, OE anticipates focusing its evaluation efforts on several critical areas, including FHFA's administration of the conservatorships, supervision of the Enterprises,

resource allocation, adherence to its housing mission and goals, and oversight of the FHLBank System.

5. 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 451 criminal indictments/informations, over 282 convictions and financial fines, and recoveries of over \$40 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 2014

Through December 2014, OI participated in over 430 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 2014 are discussed briefly below.

Residential Mortgage-Backed Securities Working Group

FHFA-OIG continued to actively participate in the RMBS Working Group established by the President in 2012 to investigate those responsible for misconduct contributing to the financial crisis through the pooling of mortgage loans and sale of residential mortgage-backed securities. The RMBS Working Group is a collaborative effort of dozens of federal and state law enforcement agencies.

FHFA-OIG's participation has included, among other things, providing background advice with regard to the RMBS market, providing strategic litigation advice, assisting with witness interviews, and reviewing documents and other evidence produced by various parties for members of the Working Group.

During FY 2014, the Working Group was successful in negotiating settlements with two of America's largest banks for illegal behavior conducted by the banks and companies they acquired in relation to the sale of RMBS. These settlements, with Bank of America and Citigroup, totaled \$23.65 billion. FHFA-OIG played a key role in the investigations leading to each of these settlements. When added to the previously reported settlement negotiated by the Working Group with JPMorgan, the total amount of all such settlements (including the \$4 billion from the JPMorgan settlement that went to FHFA) is \$36.65 billion. Following is more detail on the two settlements noted above.

- On July 14, 2014, members of the Working Group reached a \$7 billion settlement with Citigroup. As part of the settlement, Citigroup acknowledged it made serious misrepresentations to the investing public about the mortgage loans it securitized in RMBS before January 1, 2009. The bank paid \$4.5 billion to settle the federal and state civil claims by various entities related to the issuance of RMBS. Citigroup also agreed to pay \$2.5 billion in the form of consumer relief to aid mortgage borrowers harmed by Citigroup's conduct.
- The settlement reached with Bank of America on August 21, 2014, constituted the largest civil settlement with a single entity in American history. The settlement covered claims made against the bank as well as two companies the bank acquired: Countrywide Financial Corporation and Merrill Lynch. The bank agreed to pay \$9.65 billion to DOJ, several states, and government agencies, including the SEC. The bank also will provide \$7 billion of relief to struggling homeowners, borrowers, and communities affected by the bank's conduct. Bank of America admitted that many of the residential mortgage loans securitized in RMBS sold to investors were defective, and statements made in prospectuses about the quality of the loans were inaccurate.

American Mortgage Field Services, LLC (AMFS)

On May 29, 2014, in the U.S. District Court for the Middle District of Florida, Tammy Roderick was sentenced to 33 months' incarceration, to be followed by 3 years of supervised release, and ordered to pay \$2,396,498 in restitution. Roderick had previously pled guilty to conspiracy to commit wire fraud. The restitution was ordered joint and several with co-defendant Dean Counce, former president of American Mortgage Field Services, LLC (AMFS). The sentencing order prohibited Roderick from working in the property preservation industry.

From at least March 2007 through December 31, 2009, Roderick was in a managerial position at AMFS. In that position she conspired with Counce and other AMFS employees to oversee the submission of thousands of fraudulent property inspection reports to Bank of America for which AMFS was paid but never actually conducted. Under the terms of its servicing agreements with the Enterprises and the Federal Housing Administration (FHA), Bank of America would contract with companies such as AMFS and pay them for this and additional property preservation services. Bank of America would then submit claims for reimbursement to the Enterprises and FHA for the services rendered during the foreclosure process.

Due to high foreclosure rates in the state of Florida caused by the mortgage crisis, AMFS employees, some of whom were under the direction of Roderick, began to falsify an increasing number of these property inspections. Ultimately, at least half of the property inspections submitted to Bank of America on a monthly basis were fabricated.

This was a joint investigation with HUD-OIG and the Secret Service.

Loan Origination Mortgage Fraud, Sacramento California

On August 21, 2014, in the U.S. District Court for the Central District of California, Soo Kyung Hong (also known as Maria Hong) was sentenced to 36 months in prison and ordered to pay \$2,089,000 in restitution, joint and several, with defendant Shing Yang, including \$203,000 to Freddie Mac.

On August 4, 2014, in the same court, Yang (also known as Jack Yang) was sentenced to 14 months' incarceration, 3 years' probation, and ordered to pay restitution in the amount of \$2,257,866 to victim financial institutions, including \$203,000 to Freddie Mac.

Starting in late 2006 and continuing until early 2007, co-conspirator Hong, whom Yang knew from previous business dealings, approached Yang and asked if she could use Yang's company, Red Gate Enterprises, to falsely verify the employment of home buyers who were applying for home loans. Yang agreed and subsequently forwarded all lender employment

verification calls to Hong's cell phone number. Using Red Gate Enterprises, Hong was able to have two additional co-conspirators act as straw buyers and obtain loans on at least four properties. The loss to the lenders on these four properties is approximately \$1.24 million. One of the loans was purchased by Freddie Mac, which suffered a loss of approximately \$245,000. This was a joint investigation with the FBI and IRS.

c. Planned Activities

In FY 2015, OI will continue to support the RMBS Working Group and its investigations involving fraudulent or overvalued securities sold to the GSEs and the FHLBs.

In addition, OI continues 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 maintains a close working relationship 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, which manages FHFA-OIG's Hotline operations. By consolidating all FHFA-OIG Hotline operations to include internet, phone calls, mail, and faxed complaints, OI has improved its efficiency and response time. In addition, OI participates in the National Mortgage Fraud Working Group in Washington, D.C., as well as Regional Mortgage Fraud Task Forces throughout the country, and is a member of the President's Financial Fraud Task Force.

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. During FY 2014, OI opened a regional office in Chicago, IL.

6. Office of Administration

a. Program Description

The Office of Administration (OAd) is led by the Deputy Inspector General for Administration. An Assistant Inspector General for Administration reports to the Deputy Inspector General for Administration and oversees the work of four Directors. OAd manages and oversees FHFA-OIG's administrative support functions, including budget development and execution, continuity of operations, contracting and credit cards, financial management, human resources, information technology, facilities and property management, safety, training, and travel. 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 in FY 2014

OAd continued to coordinate FHFA-OIG recruitment efforts 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. Additionally, assessments were conducted of the 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. Regional office space was established in Newark, New Jersey; Tampa, Florida; Chicago, Illinois; and Los Angeles, California. Significant enhancements were made to the information technology security program. FHFA-OIG conducted its first complete Continuity of Operations Plan exercise. 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 2014, OAd developed or updated many policies and procedures to guide FHFA-OIG's operations.

c. Planned Activities

During FY 2015, in addition to providing routine administrative support, OAd has identified key areas of work:

- In the areas of budget development and execution and financial management, OAd will focus on preparation for the FHFA annual financial statement audit and ongoing financial management controls testing as it relates to OMB Circular A-123.
- In the areas of contracting, credit cards, facilities, property management, and safety, OAd will focus on providing continued regular oversight of all acquisitions; finalizing the design, construction, and security plan for the Tampa and Chicago regional offices; and positioning the continuity of operations supplies and equipment at the Washington, D.C., headquarters and all regional offices.
- In the areas of human resources and training, OAd plans to implement a new human resources systems, HR Connect, which is a U.S. Department of Treasury core human resource system that HR practitioners, managers, and employees use to perform a wide array of transactions at various stages of an employee's work life.
- In the area of information technology, OAd will focus on improving computer and telephone system performance by increasing network bandwidth, modernizing remote

access, and updating its operating system and office software. These improvements will allow for greater data processing speeds; better support for Continuity of Operations; more reliable telephone and video conferencing capabilities; and increased data backup storage. Additionally, OAd will improve mobile asset management using new software, which will reduce the risk of data leaks and malicious activity, prevent the installation of unauthorized software applications, and can determine the locations of (and deactivate, if necessary) all computers, phones, and data storage devices.

III. THE FY 2016 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 Estimate	FY 2015 Target	FY 2016 Target
Percentage of work products related to FHFA’s effective oversight of the GSEs’ safety and soundness, and housing missions	31%	30%	30%
Percentage of work products related to FHFA’s internal operations	38%	15%	15%
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 the 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.
- 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 Estimate	FY 2015 Target	FY 2016 Target
Percentage of FHFA-OIG work products related to FHFA’s effective management and conservation of the Enterprises	30%	30%	30%

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

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

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

- Providing Systemic Implication Reports on management weaknesses 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 FHFA Internal Operations

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

FHFA-OIG Strategic Goal 4: Promote effective FHFA-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 FHFA-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 FHFA-OIG Internal Operations

	Performance Indicators		
	FY 2014 Estimate	FY 2015 Target	FY 2016 Target
FHFA-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 FHFA-OIG offices	Meets	Meets	Meets
Percentage of superior and highly satisfactory ratings on an annual administrative support survey	95%	90%	90%