

**FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL**

**Audit of the Federal Housing Finance Agency's
Consumer Complaints Process**



AUDIT REPORT: AUD-2011-001

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At a Glance

Why FHFA-OIG Did This Audit

In September 2008, the Federal Housing Finance Agency (FHFA or Agency) placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises) into conservatorships in an effort to restore their financial health. As of March 31, 2011, the U.S. Department of the Treasury had invested nearly \$154 billion in the Enterprises, and the Federal Reserve has taken major steps to support the Enterprises, such as committing to purchase up to \$1.25 trillion of their securities.

The current national housing finance crisis has left millions of existing borrowers, communities, and investors struggling with delinquent and defaulted mortgages, loan modifications, and foreclosures. At the same time, consumers suffering from the effects of the crisis increasingly filed complaints with the Enterprises and FHFA, the conservator and regulator of the Enterprises. FHFA staff estimated that 70% - 75% of all complaints to the Agency pertained to the Enterprises.

In light of these events, Congress and others expressed interest in whether FHFA adequately responded to consumer complaints including, but not limited to, complaints of fraud, waste, or abuse. These complaints run the gamut from difficulties obtaining information from the Enterprises to allegations of potential criminal activity. The FHFA Office of Inspector General (FHFA-OIG) initiated this audit to assess how FHFA processed consumer complaints.

What FHFA-OIG Recommends

FHFA-OIG recommends that the Agency: (1) design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints and allegations of fraud, that, among other things, define the related roles and responsibilities for FHFA and the Enterprises and provide for consultation with FHFA-OIG to process allegations of fraud; (2) assess the sufficiency of resources allocated to the complaints process; and (3) determine whether there are unresolved complaints alleging fraud or other potential criminal activity.

In response to FHFA-OIG's findings and recommendations, FHFA provided written comments, dated June 6, 2011. The Agency agreed with the recommendations. The complete text of the written comments can be found in Appendix A of this report.

What FHFA-OIG Found

FHFA did not adequately process consumer complaints. Specifically, FHFA did not: (1) sufficiently define its role in processing complaints received by the Agency or the Enterprises; (2) develop and maintain a consolidated system for receiving and processing complaints; (3) establish effective procedures for evaluating complaints alleging potential criminal conduct and for referring such complaints to law enforcement authorities; (4) consistently follow-up on consumer complaints referred to the Enterprises; (5) comply with its records management policy; (6) perform routine substantive analyses to identify overall trends in complaints; (7) comply with safeguards for personally identifiable information received from complainants; and (8) prioritize complaints or assess the timeliness of responses to complainants.

These deficiencies occurred because FHFA did not establish a sound internal control environment governing consumer complaints, including formal policies and procedures for complaints received by FHFA and the Enterprises. Additionally, FHFA did not assign the complaint processing function sufficient priority, did not allocate adequate resources to the function (it assigned two individuals from its public relations staff to carry out the function), and did not provide effective oversight including performance reporting on the resolution of complaints (it was unable to identify the total number of complaints received during the audit period and report the disposition of each complaint). As a result, FHFA lacks assurance that complaints, including those alleging fraud, waste, or abuse, such as improper foreclosures, were appropriately addressed in an efficient and effective manner in order to minimize risks. This is particularly important given FHFA's responsibilities as conservator for the Enterprises.

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ABBREVIATIONS/ACRONYMS

Fannie Mae.....	Federal National Mortgage Association
FBI	Federal Bureau of Investigation
FHFA or Agency.....	Federal Housing Finance Agency
FHFA-OIG	Federal Housing Finance Agency Office of Inspector General
FHLBanks	Federal Home Loan Banks
Freddie Mac.....	Federal Home Loan Mortgage Corporation
HERA.....	Housing and Economic Recovery Act of 2008
MS.....	Microsoft®
OCAC	Office of Congressional Affairs and Communications
OCO	Office of Conservatorship Operations
OFHEO	Office of Federal Housing Enterprise Oversight
OGC	Office of General Counsel
TBW.....	Taylor, Bean &Whitaker Mortgage Corp.

Federal Housing Finance Agency

Office of Inspector General

Washington, D.C.

PREFACE

FHFA-OIG was established by the Housing and Economic Recovery Act of 2008 (Public Law No. 110-289), which amended the Inspector General Act of 1978 (Public Law No. 95-452), to conduct audits, investigations, and other activities of the programs and operations of FHFA; to recommend policies that promote economy and efficiency in the administration of such programs and operations; and to prevent and detect fraud and abuse in them. This is one of a series of audits, evaluations, and special reports published as part of FHFA-OIG's oversight responsibilities to promote economy, effectiveness, and efficiency in the administration of FHFA's programs.

The objective of this performance audit was to assess how FHFA processed consumer complaints. The audit found that FHFA did not have an adequate complaints process. For example, FHFA assigned only two individuals to process complaints; did not segregate complaints from other correspondence within its systems; did not refer potentially criminal allegations to law enforcement authorities; and did not consistently log telephone complaints. FHFA-OIG believes that the recommendations contained in this report will help the Agency develop and adopt more economical, effective, and efficient operations. FHFA-OIG appreciates the assistance of all those who contributed to the audit.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on FHFA-OIG's website: <http://www.fhfaig.gov/>.



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BACKGROUND

On July 30, 2008, the Housing and Economic Recovery Act of 2008 (HERA) established FHFA as regulator of the three housing-related government-sponsored enterprises: Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks). FHFA's mission is to promote their safety and soundness, support housing finance and affordable housing goals, and facilitate a stable and liquid mortgage market.

On September 6, 2008, just five weeks after its creation, FHFA became conservator of Fannie Mae and Freddie Mac, and the U.S. Department of the Treasury (Treasury) began providing the Enterprises substantial financial support. As conservator, FHFA preserves and conserves the assets and property of the Enterprises, ensures they focus on their housing mission, and facilitates their financial stability and emergence from conservatorship. As of March 31, 2011, Treasury had invested almost \$154 billion in the Enterprises in an effort to stabilize their operations and the mortgage market generally. The Federal Reserve also took steps to support the Enterprises, such as committing to purchase up to \$1.25 trillion of their securities.

On October 12, 2010, FHFA's first Inspector General was sworn in, and FHFA-OIG commenced operations. In November 2010, FHFA-OIG initiated this audit to assess how FHFA processed consumer complaints. For purposes of this report, consumer complaints include, but are not limited to, those involving allegations of fraud, waste, or abuse. These complaints run the gamut from difficulties obtaining information from the Enterprises to allegations of potential criminal activity. The time period covered by this audit begins with the creation of the Agency on July 30, 2008, and continues for two years and three months, through October 31, 2010, when FHFA-OIG's operations began.

Overview of Consumer Complaints

Consumer Complaints Pertaining to FHFA and the Enterprises

The current national housing finance crisis has left millions of existing borrowers, communities, and investors struggling with delinquent and defaulted mortgages, loan modifications, and foreclosures. FHFA reported in its Fiscal Year 2010 Performance and Accountability Report that continued uncertainty about economic conditions, employment, housing prices, and mortgage delinquency rates were likely to result in additional losses and Treasury investments in the Enterprises.

The deteriorating financial conditions in the housing market have been accompanied by a substantial increase in consumer complaints, including those about the Enterprises. While both Enterprises developed internal controls to manage these complaints, a December 2, 2010, FHFA review of the Enterprises' consumer complaints procedures – when describing the rationale for conducting the review – reported an “increased number of repeat complaints and increased number of consumers who claim Fannie Mae or Freddie Mac are not responsive.” Consumers file complaints with FHFA, the Enterprises, or both. In some instances, consumers elevated to FHFA their complaints that were initially filed with the Enterprises. Although FHFA personnel

were unable to identify the total number of complaints received during the audit period, they stated that the number of individuals who contacted the Agency with complaints increased dramatically. Further, more than 70% of all consumer complaints received by FHFA during the audit period were submitted by individuals who claimed they were experiencing problems with the Enterprises.¹

Complaints of Fraud, Waste, or Abuse

During the audit period, the nation also witnessed a dramatic surge in mortgage fraud cases. According to statistics released by the Federal Bureau of Investigation (FBI) in July 2009, there was a 36% increase in reports of mortgage fraud in fiscal year 2008 compared to fiscal year 2007.² Further, financial institutions estimated that they lost at least \$1.4 billion to mortgage fraud in fiscal year 2008, an increase of 83% in estimated losses over fiscal year 2007.

FHFA received complaints alleging fraud, waste, or abuse through the same processes as consumer complaints. Many of these allegations involved possible improper foreclosure actions on single family residential mortgages, which is an area of considerable risk because of the potential adverse impact on the consumer.

FHFA's Consumer Complaints Process

Beginning in late 2008, FHFA assigned the task of handling consumer complaints to two individuals who worked in the Office of Congressional Affairs and Communications (OCAC), the unit responsible for handling most of the Agency's external correspondence. The two employees were given consumer complaint processing duties in addition to their existing significant responsibilities.

FHFA's practices for processing consumer complaints varied according to the means of their communication and their subject matter. Written, email, and telephone complaints were processed separately and differently. Additionally, depending upon the subject matter, OCAC forwarded complaints to the Enterprises or processed them internally.

Written Complaints

During the audit period, FHFA received written correspondence by U.S. mail, private express mail carrier, and telefax. All such correspondence, including written complaints, was delivered to the Office of the Director and entered into FHFA's internal electronic information system, known as TRAKKER.³

¹ Sometimes the Agency received complaints from current and former employees of the Enterprises. This audit did not extend to complaints from employees related to personnel issues.

² See, 2009 Mortgage Fraud Report "Year in Review," FBI National Press Release, dated July 7, 2009, available at <http://www.fbi.gov/stats-services/publications/mortgage-fraud-2009>.

³ FHFA developed this electronic system in 2008 to serve as a document storage system for hard copy, written correspondence received by the Agency.

Within TRAKKER, FHFA did not prioritize consumer complaints. FHFA's external correspondence was subdivided into categories or classifications. One such category was "public inquiries," which included consumer complaints. Other categories included Congressional correspondence and stakeholder inquiries. FHFA did not assign any priority to the public inquiries category. Further, although FHFA advised that all written complaints were filed within the public inquiries category, FHFA-OIG's random review of correspondence retained throughout the TRAKKER system revealed that complaints were also filed among other categories in the system, including the "Presidential" communications category. Thus, even if the Agency had manually culled complaints from the public inquiries category, it still would not have identified all written complaints for this audit.

Complaints logged into the public inquiries category of the TRAKKER system were commingled with other general correspondence. TRAKKER did not provide FHFA with the capability to separate complaint correspondence from all other correspondence. No sub-classifications, codes, or categories were entered at the time of logging that would allow FHFA later to identify correspondence containing complaints. As a result, FHFA cannot efficiently and accurately report – or even provide summary information – concerning the volume or type of written complaints received by the Agency, the number of unresolved complaints, the average amount of time to resolve a complaint, or how complaints were resolved. Because complaints were commingled with multiple types of general correspondence, the Agency was also unable to analyze trend data and identify risk areas. Accordingly, the Agency was unable to efficiently fulfill FHFA-OIG's request for complaints received during the audit period. FHFA had no capability – short of a manual inspection – to access the written complaints it had received over the course of the 27 month audit period. This inability was a limitation in the scope of the audit.

Electronic Mail Complaints

FHFA also commingled email complaints with other external email communications, which again, inhibited its ability to report efficiently and accurately on the volume, types, timing, and resolution of complaints. In late 2008, FHFA established a public email account (FHFAInfo@fhfa.gov) and posted the address on the Agency's website. The subject matter of the emails received from the public varied and included, among other things, comments, questions, and complaints. Emails received from the public were retained in the Agency's email system. However, similar to the Agency's practice with respect to written correspondence, FHFA did not adopt a system or procedures to preserve and retain separately emails containing complaints from the entire universe of external emails that it received. Accordingly, FHFA's email complaints suffer from some of the same deficiencies noted with respect to written complaints retained in the TRAKKER system.

FHFA-OIG manually reviewed all emails that were received and designated as a complaint by the Agency for the specified audit period. The Agency formulated the emails into a database that FHFA-OIG used for the audit. FHFA-OIG determined that 585 consumer email complaints were received during the audit period. Of these complaints, 115 were retained by the Agency for

internal processing⁴ and the remaining 470 complaints were referred to the Enterprises. FHFA-OIG also determined that 27 complaints included allegations of fraud,⁵ and 68 contained allegations of improper foreclosures.

According to the Office of General Counsel (OGC) staff, it was FHFA's practice to refer email complaints containing allegations of possible fraud, waste, or abuse to OGC for review and appropriate action. But, according to OGC, no records exist showing how many such complaints were referred for review to OGC, the nature of the complaints reviewed, or their disposition. Further, OGC confirmed that no complaints were referred to law enforcement authorities during the audit period.

Telephone Complaints

Telephone complaints that came into the Agency were transferred to OCAC staff. However, prior to June 2010, incoming telephone calls from individuals who registered complaints about the Agency or the Enterprises were not recorded. As a result, the nature of each complaint was not described, and the complainant's information was not retained. Further, a description of the disposition of each complaint was not preserved. In June 2010, however, one OCAC employee began logging telephone complaints by entering and saving complainant contact information on a spreadsheet. This practice was not uniformly followed. Specifically, no other OCAC or FHFA staff member logged telephone complaint information. Therefore, overall information on the number of these complaints was not available, which, similar to the situation with written complaints, posed a scope limitation for the audit. Moreover, the inadequate recordkeeping represents a significant shortcoming in the complaint resolution process.

FHFA Debated Its Role in the Complaints Process for Two Years

Although FHFA recognized the importance of properly handling complaints in its Fiscal Year 2010 Performance and Accountability Report – stating that it was committed to providing accurate information to industry stakeholders and the public in a timely way – it debated the nature and scope of its role for two years and did not implement needed improvements.

In March and April 2009, FHFA senior managers engaged in a debate recorded in emails concerning FHFA's role in the complaints process. An individual complained to FHFA about having difficulties obtaining information related to a home sale under Freddie Mac's "Home Steps" program. The series of internal FHFA emails concluded with the following reply email, dated April 1, 2009, from an FHFA senior manager to seven other FHFA officials and staff:

My own view – we are the regulator and conservator. It is a slippery slope for us to be responding to complaints about individual transactions like this. If we think this is

⁴ In some cases, internal processing constituted a summary determination that no action was required.

⁵ The scope of this audit did not include assessing the validity of the allegations received by FHFA. Additionally, although FHFA-OIG was able to track and analyze the disposition of email complaints, it was unable to perform similar analyses on telephone and written complaints due to the lack of documentation.

evidence of a more general problem or concern we have, we should use it to communicate with the appropriate regulated entity about the problem. Otherwise, I see no merit to responding to (Mr. X) beyond perhaps a stiffly worded “we received your communication and have forwarded your concern to an appropriate party. As a general matter we do not intervene in individual transactions” or something like that ... The response should come from OER.⁶ OCO⁷ can then send the email trail to Fannie ... and simply say we are passing along this communication for your information. You may take whatever action you deem appropriate. We plan no follow-up.

Debate within the Agency continued through 2009 and into 2010. In September 2010, consistent with the FHFA senior manager’s conclusion quoted above, the Agency posted on its website an item entitled, “FHFA: Frequently Asked Questions,” which included two sample questions concerning complaints.⁸ After describing the facts of the underlying complaint, the first inquiry concluded, “Can FHFA resolve this situation for me?” FHFA replied that:

Under conservatorship, FHFA has delegated certain authorities to Fannie Mae and Freddie Mac, including responsibility for day to day business operations. FHFA generally does not intervene in matters involving individual mortgages, property sales or transfers, foreclosures, or other actions.

The second inquiry asked:

I have spent long periods of time trying to reach a representative at Fannie Mae or Freddie Mac by phone, or I have had unsatisfactory interactions with representatives once I have gotten through to one of the companies. As regulator and conservator of the Enterprises, will FHFA resolve the issue or help me reach a person who will help solve my problem?

FHFA responded with the same explanation about FHFA’s delegation to the Enterprises, but elaborated as follows:

Both Enterprises have experienced unprecedented levels of calls, emails, and letters in the past two years since the housing crisis began and phone call centers are sometimes overwhelmed. We urge borrowers to be patient as they attempt to contact the Enterprises directly to resolve mortgage-related issues.

Throughout this period, the Agency’s posture was that the Enterprises, not FHFA, should handle complaints, and that FHFA’s handling of complaints was simply a “courtesy” provided to consumers. Further, FHFA did not clarify what role it should play in overseeing the Enterprises’ resolution of complaints. For example, FHFA issued no guidance concerning the content and format of resolution reports, did not routinely reconcile reports, and obtained and reviewed

⁶ “OER” was the acronym that FHFA used to refer to its Office of External Relations, which was the predecessor to OCAC.

⁷ “OCO” is an acronym used to describe the Office of Conservatorship Operations.

⁸ See <http://www.fhfa.gov/Default.aspx?Page=316>.

disposition documentation in only two cases (even though such documentation was requested for complaints forwarded to the Enterprises for a response).⁹

In October 2010, OCO began a review of the consumer complaints process at Fannie Mae and Freddie Mac. OCO's decision to conduct the review purportedly was "based on the increased number of repeat complaints and the increased number of consumers who claim Fannie Mae or Freddie Mac are not responsive."¹⁰ Based on its review, OCO recommended that FHFA address long-standing questions concerning its role in resolving consumer complaints. OCO rhetorically asked, "What role does FHFA want or need to play in the consumer complaint arena?" Should FHFA play an active role in complaint resolution, "or determine that they are an intermediary" and simply refer complaints to the Enterprises? Responding to its questions, OCO observed that FHFA must determine whether to involve itself only with complaints sent to FHFA or to play some role in reviewing the resolution of all complaints sent to the Enterprises. The OCO report's final section, entitled "OCO Minimum Suggestions," urged FHFA to "take a more active monitoring position in the complaint process." Specifically, the report concluded that FHFA should better manage its consumer complaint referral process, including doing the following: (1) actively monitoring the weekly reports¹¹ to ensure that sufficient information is obtained; and (2) obtaining and reviewing at least a sample of the actual documentation for sufficiency in addressing the complaints.

Additionally, in response to recommendations by FHFA's former Office of Internal Audit, the Agency engaged a contractor to assess its internal controls over the handling of external stakeholder correspondence, including consumer complaints. As of the Agency's June 6, 2011, comments to a draft of this report, the Agency had neither fully resolved the internal debate concerning its role in the consumer complaint process nor implemented any of the recommendations included in its contractor's final report received on May 5, 2011.¹²

⁹ FHFA-OIG did not assess the processes used by the Enterprises to handle complaints received either directly or from FHFA.

¹⁰ The reasons for the review are unclear, but there is evidence that it may have been prompted by FHFA-OIG's inquiries on the subject. Although FHFA claims that its decision was prompted by the volume of complaints and concerns about the Enterprises' responsiveness, the Agency's meeting minutes indicate that an OCO staff member explained to one of the Enterprises that "FHFA is trying to gain a better understanding of the consumer complaints process at both Enterprises, especially in light of a recent IG request."

¹¹ In late 2009, FHFA began receiving weekly reports from the Enterprises that outlined the status of the referred complaints. However, the weekly reports were strictly narrative and were not supplemented by supporting documentation. Also, FHFA did not conduct adequate and/or timely reconciliations of the weekly reports to ensure that proper action was taken to address the complaints. FHFA officials stated that informal reconciliations of the complaints were performed; however, this process was not documented. Furthermore, OCAC staff explained that they were at one point up to five weeks behind in conducting the reconciliations.

¹² We did not assess the status of FHFA's implementation of the recommendations in the contractor's report, but instead relied on statements included in FHFA's June 6th comments.

RESULTS OF THE AUDIT

Finding: FHFA's Oversight of the Receipt, Processing, and Disposition of Consumer Complaints Was Inadequate

For the period of July 30, 2008, through October 31, 2010, FHFA did not adequately process consumer complaints, including those alleging fraud, waste, or abuse. Specifically, FHFA did not:

- (1) Sufficiently define its role in processing complaints received by the Agency or by the Enterprises;
- (2) Develop and maintain a consolidated system for receiving and processing complaints;
- (3) Establish effective procedures for evaluating complaints alleging potential criminal conduct and for referring such complaints to law enforcement authorities;
- (4) Consistently follow-up on consumer complaints referred to the Enterprises;
- (5) Comply with its records management policy;¹³
- (6) Perform routine substantive analyses to identify overall trends in complaints;
- (7) Comply with safeguards for personally identifiable information received from complainants; or
- (8) Prioritize complaints or assess the timeliness of responses to complainants.

This occurred because the Agency did not establish a sound internal control environment¹⁴ that included formal policies and procedures regarding complaints processing. Further, FHFA did not assign the complaint processing function sufficient priority, allocate adequate resources, or perform effective oversight, including performance reporting on the resolution of complaints. As a result, FHFA lacks assurance that complaints, including those alleging fraud, waste, or abuse, were appropriately addressed in an efficient and effective manner.

1. FHFA Did Not Sufficiently Define Its Role in the Consumer Complaints Process

As the regulator and conservator of the Enterprises, FHFA did not sufficiently define its role and responsibilities for the receipt, processing, and disposition of consumer complaints. For example, FHFA has not:

- Clearly defined its role in resolving consumer complaints;
- Developed and adopted a formal policy establishing organizational responsibilities for receiving, processing, and resolving complaints. FHFA-OIG found no written policies or procedures governing the complaints process;

¹³ FHFA Policy No. 207: *Records Management Policy*, dated January 9, 2009.

¹⁴ The Government Accountability Office published *Standards for Internal Control in the Federal Government*, dated November 1, 1999, which discusses the control environment in terms of management's framework for planning, directing, and controlling operations to achieve objectives.

- Provided the necessary resources to address complaints and instead – without providing additional needed training – assigned the task of processing all complaints to two employees who already had significant responsibilities within OCAC;
- Conducted appropriate follow-up on the disposition of complaints referred to the Enterprises, nor has it obtained and reviewed the supporting documentation reflecting such disposition; or
- Actively monitored all pending complaints or developed the capacity to do so.

FHFA-OIG concluded that FHFA’s failure was largely the result of its inability to decide whether to handle consumer complaints, and how to address those complaints it decided to handle. From the onset, FHFA treated its complaints processing function more as a public or external relations task, as opposed to a core regulatory or conservator function.

To date, FHFA has not published formal policies and procedures that could serve as a guide to its employees and could inform the public regarding whether FHFA is prepared to intervene on behalf of citizens who experience difficulties in matters involving the Enterprises. FHFA has been aware of the problem; indeed, it has debated the issue for two years.

FHFA assigned the responsibility for the receipt, processing, and disposition of complaints to two OCAC employees. Both individuals had significant responsibilities in addition to processing the complaints coming into the Agency. As a result, the OCAC employees were limited in their ability to focus attention on complaint processing even though the Agency reported that complaint activity was increasing. Moreover, the OCAC staff members did not have a clear statement of FHFA’s intent to address complaints, as would be the case if the Agency had written policies and procedures for processing complaints. Indeed, one of the two OCAC employees who handled complaints advised an OCAC senior manager that she was concerned that FHFA’s procedures for handling complaints could become “an emergency situation or embarrassing PR nightmare.”

Additionally, the two OCAC staffers who managed FHFA’s complaints process routinely made *ad hoc*, important decisions regarding complaint referrals from FHFA to other government agencies, external organizations, and the Enterprises. These decisions were not governed by an Agency-wide policy, there were no required approvals or management oversight of such actions, and there were no procedures to provide supervisors with evidentiary support for their decisions or to perform follow-up. The OCAC staffers received no specific training regarding how to evaluate complaints or how to identify allegations requiring further action by the Agency or referral to law enforcement authorities, such as the Department of Justice or the FBI.

2. FHFA Did Not Develop and Maintain a Consolidated System for Receiving and Processing Consumer Complaints

FHFA used three separate systems to log complaints: (1) a Microsoft® (MS) Excel spreadsheet to log telephonic complaints;¹⁵ (2) an MS Outlook email account to log email complaints; and (3) the TRAKKER system to log hard copy complaints, including letters and faxes. Further, FHFA did not monitor complaints sent directly to the Enterprises. This decentralized methodology limited oversight of the total population of complaints because there was no consolidated management reporting system.¹⁶ In fact, FHFA was unable to identify the total number of complaints the Agency and Enterprises received during the audit period. Without such a consolidated system, the Agency was unable to provide transparency of the complaints environment, including management reporting and appropriate access to Agency staff to facilitate effective oversight of the complaints process.

Additionally, FHFA lacked formal procedures governing its process for tracking and reconciling complaints using the three systems identified above, as well as the Enterprises' reports. This lack of procedures impaired the consistency and usefulness of the information maintained and oversight of the complaints process.

FHFA also did not establish minimum information requirements necessary to make well-supported and documented decisions regarding the processing of complaints. Consumer complaints received by the Agency covered a variety of topics and contained a wide range of information – from as little as the complainant's first name to more than a year's worth of written correspondence and documentation, sometimes including complete loan packages. FHFA, however, took no action to establish a consolidated management reporting system for complaints, standard complaint documentation, data elements for required information, or consistent categories and classifications of complaints that would be useful in controlling the complaints process and ensuring Agency and Enterprise responsiveness to complainants.

Rather than develop a consolidated management reporting system for complaints, FHFA tolerated an inefficient, decentralized complaints process. As a result, it lost track of more than two years of written, telephone, and email complaints and lacks assurance regarding the adequacy of responses.

3. FHFA Did Not Establish Effective Procedures for the Evaluation and Referral of Consumer Complaints Alleging Fraud, Waste, or Abuse

FHFA-OIG determined that there were 585 email complaints submitted during or in close proximity to the audit period. These complaints were received by FHFA and, in some cases, one of its predecessor agencies (the Office of Federal Housing Enterprise Oversight (OFHEO)). Among the complaints reviewed by FHFA-OIG, there were 95 complaints containing allegations of fraud and/or improper mortgage foreclosure. Of these 95 complaints, 27 involved allegations

¹⁵ As previously discussed, the spreadsheet was used by only one employee, and its use began in June 2010.

¹⁶ A reporting system must meet the requirements in FHFA Policy No: 207: *Records Management Policy*, dated January 9, 2009.

of fraud, and the remaining 68 related to allegations of improprieties in the handling of foreclosures.

According to OGC staff, it was FHFA's practice during the audit period to refer consumer complaints containing allegations of possible fraud, waste, or abuse to OGC for review and appropriate action. However, neither OCAC nor OGC maintained records of complaints forwarded by OCAC to OGC. Thus, OGC was unable to verify that OCAC had forwarded any allegations of fraud and/or improper mortgage foreclosure to OGC, and, if it did, what became of the referrals. OGC was able to confirm, on the other hand, that it had not referred any complaints to law enforcement during the period covered by this audit.

Failure to recognize and quickly provide law enforcement authorities with information about allegations of fraud and other potential criminal conduct presents a significant risk for the Agency. For example, in June 2008, serious allegations of fraud were reported to FHFA's predecessor agency, OFHEO, by an investigative reporter who claimed – in an email – to be in contact with a former employee of Taylor, Bean & Whitaker Mortgage Corp. (TBW), once one of the nation's largest mortgage lenders. The former employee alleged that TBW was fraudulently selling loans to Freddie Mac that TBW had not yet purchased, and that TBW was using the proceeds paid by Freddie Mac to re-pay advances it received. The information was circulated among OFHEO's senior managers (who became FHFA senior managers when OFHEO was consolidated into FHFA at the end of July 2008). OFHEO decided to follow-up on the allegations, but no standard procedures were in place to assure prompt follow-up. As a result, the complaint was neither pursued to completion, nor was it referred to law enforcement authorities for evaluation or possible investigation.

A little more than a year after FHFA's predecessor agency received the email alleging fraud at TBW, federal law enforcement authorities executed a search warrant on TBW's offices in Florida. Warrants were also executed simultaneously at TBW's primary bank, Colonial Bank of Orlando, Florida. Criminal charges followed against multiple individuals, and in April 2011 the former Chairman of TBW was convicted on federal charges of participating in a multi-billion dollar scheme that defrauded Freddie Mac and contributed to the failures of Colonial Bank and TBW. Six other individuals from TBW or Colonial Bank entered pleas of guilty for their roles in the scheme. Although it is impossible to conclude what may have happened if FHFA's predecessor, OFHEO, or FHFA had contacted law enforcement authorities in 2008 – more than one year before the execution of the search warrant – its failure to do so vividly illustrates the importance of expeditiously and thoroughly following-up on complaints of fraud and having procedures to ensure that such follow-up occurs.

Based on the above, FHFA should determine if there are other unresolved complaints alleging fraud to ensure that appropriate action is taken.

4. Follow-up on Consumer Complaints Referred to the Enterprises Was Inconsistent

As previously mentioned, the Agency conducted a limited review of its complaints procedures in late 2010. Although this review did not result in the establishment of a written policy setting

forth FHFA's role and responsibilities with respect to complaints, it led to the adoption of some improvements. For example, FHFA required both Enterprises to submit weekly reports setting forth in narrative form the current status of each complaint that FHFA had previously referred to them for disposition.

Without written policies, however, OCAC staff and the Enterprises continued to lack clear direction regarding the objectives that FHFA intended to achieve in the management and oversight of the weekly reports and the complaints process in general. Each of the Enterprises used different formats for their respective reports and did not categorize them in the same manner. Moreover, OCAC staff did not routinely and promptly reconcile the weekly reports submitted by the Enterprises with the original complaints that FHFA had referred to them in the first place. As a result, OCAC performed no meaningful analysis of the information provided by the Enterprises and did not adequately monitor the Enterprises' handling of complaints. Indeed, OCAC staffers advised that they considered complaints to be resolved or disposed of at the time that they were referred to the Enterprises. Thus, follow-up served no procedural purpose; the complaints were already "closed."

Although FHFA's standard referral letter to the Enterprises requested copies of disposition documentation, in nearly every instance where the Enterprises reported a complaint's status, FHFA took no steps to obtain and review the actual documentation of the transactions that were the subject of the complaint.¹⁷ Of the 470 complaints referred to the Enterprises, FHFA actually obtained all correspondence and disposition documentation in only 2 instances.

5. FHFA Did Not Follow Essential Records Management Policies

FHFA did not follow its records management policy with regard to email complaints it received. FHFA Policy No. 207: *Records Management Policy* (January 9, 2009) requires the following:

FHFA shall create, maintain, and preserve information as records, regardless of physical format, which contain adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Agency to protect the legal and financial rights of the Government and of persons directly affected by the Agency's activities.

Further, FHFA guidance implementing FHFA Policy No. 207 explains that MS Outlook is not an approved recordkeeping system and should not be used as one. Nonetheless, FHFA retained email complaints submitted to the Agency via FHFAInfo@fhfa.gov in MS Outlook. This resulted in two related deficiencies.

First, the Agency did not ensure that the email records were safely stored for efficient retrieval by authorized users. FHFA has not implemented procedures that enable staff to retrieve complaints in an automated fashion. For the Agency to create a universe of email complaints for

¹⁷ When FHFA forwarded a complaint to an Enterprise, it included the following standard language in the referral email "...please copy back all correspondence, supporting documentation, and resolution to FHFAInfo@fhfa.gov so that we may track" the complaints.

FHFA-OIG, OCAC staff had to conduct a labor-intensive manual review of the MS Outlook emails. Furthermore, the Agency has not established how these email records will be managed, transferred, or destroyed at the end of their lifecycle, in accordance with other Agency policy.¹⁸

Second, the Agency did not create records¹⁹ that adequately documented the actions and decisions made regarding incoming email complaints. As previously mentioned, FHFA obtained all correspondence and disposition documentation for email complaints in only two instances. Importantly, FHFA also did not document or retain all actions and decisions made regarding complaints alleging fraud, waste, or abuse. The Agency lacked records documenting its review of these complaints for possible referral to OGC. Furthermore, OGC confirmed that no complaints were forwarded to law enforcement during the audit period. As a result, FHFA was unable to demonstrate full compliance with its records management policy and achieve its intent that the rights of the government and individuals were protected.

6. FHFA Did Not Perform Routine Substantive Analyses to Identify Trends and Risk Areas

FHFA-OIG found no evidence that FHFA staff analyzed the complaints the Agency received, and its systems and lack of procedural guidance inhibited its ability to perform such analysis. Identifying trends and risks is important for a regulator and conservator with limited resources. Reality dictates that a regulator and conservator cannot reasonably hope to have the capacity to cover fully all potential risks; rather, priorities must be established and resources allocated accordingly. Thus, a key focus for a regulator or conservator needs to be the collection of data and the analysis of trends and risks. FHFA missed an opportunity to use complaint information to inform its decision-making.

FHFA did not actually analyze the complaints that it received during the audit period. Further, without information requirements and a consolidated complaint reporting system, FHFA had limited capacity to track particular categories of complaints, such as those involving loan modifications, mortgage disputes, short sales, real estate owned, improper foreclosures, or alleged mortgage fraud. Moreover, because the Agency did not establish uniform record formats or standardize the data elements to be used by FHFA and the Enterprises, the Agency's ability to share information across organizational components and record and track the processing of complaints by subject matter was impaired.

As a result of its unconsolidated systems and deficient procedures, FHFA was unable to perform routine substantive analyses or identify the emergence of trends in the subject matter of complaints received. Such a capacity could have served as an "early warning system" for emerging problems, such as the foreclosure document controversy. As previously discussed,

¹⁸ See <http://www.archives.gov/records-mgmt/ardor/records-schedules.html>.

¹⁹ A record is any document or information which is "...made or received by an agency of the United States government under federal law or in connection with the transaction of public business...by the agency." A record must be relevant to Agency business. Additionally, the Agency should have continually retained complete email records. A complete record would consist of the following, at a minimum: the email itself, the response, any attachments to the email, and the transmission information.

FHFA-OIG's analysis of complaints received by email identified a number of complaints that involved allegations of improper foreclosure activities. The substance of these complaints and actions taken in response to them, if any, were not recorded for analysis. Such analysis could have been used by Agency managers to identify supervisory and regulatory issues at the Enterprises, allocate resources, prepare management reports, and assess the effectiveness of complaint disposition efforts.

7. FHFA Did Not Comply with Safeguards for Personally Identifiable Information Received from Complainants

On August 22, 2010, the Agency issued FHFA Policy No. 301: *Use and Protection of Personally Identifiable Information Policy*, which requires that it:

- Be able to identify personally identifiable information in its possession and take appropriate safeguards to protect it; and
- Instruct users on the proper use, security, and records retention requirements for the systems and records.

In some cases, consumer complaints included personally identifiable information such as complete loan packages with the complainant's name, Social Security number, address, and loan account information. FHFA-OIG found no evidence that FHFA complied with Policy No. 301, which required it to safeguarded personally identifiable information in order to minimize the risk of unauthorized disclosure.

The FHFA staff member who began maintaining the spreadsheet log of telephonic complaints in June 2010 raised questions about the security of personally identifiable information contained in the spreadsheet, and additional instructions were disseminated to remove certain information from the log. Moreover, in October 2010, FHFA noted that suitable protection was still not in place for personally identifiable information received in consumer complaints that were later exchanged with the Enterprises.²⁰ FHFA must ensure that personally identifiable information provided by complainants and forwarded to the Enterprises is properly protected by complying with Policy No. 301 and implementing safeguards commensurate with the potential risk and magnitude of harm that could result from unauthorized disclosure.

8. FHFA Did Not Prioritize Consumer Complaints or Assess the Timeliness of Responses to Complainants

FHFA did not follow a practice of establishing priorities among the complaints received. Complaints such as the 95 emails alleging fraud or improper foreclosure, discussed above, by their very nature, were worthy of special treatment and more intensive management oversight. However, FHFA did not accord them any observable priority to ensure that they were reviewed,

²⁰ FHFA-OIG did not test FHFA's systems controls related to the protection of personally identifiable information for the three systems used to capture complaints.

evaluated, and properly referred in a timely manner. Importantly, FHFA's Fiscal Year 2010 Annual Performance Plan stated that the Agency will cooperate, collaborate, and communicate with other government agencies, the Congress, and the public. Timely and effective resolution of consumer complaints is key to achieving this objective. In addition, there were no observable practices by which OCAC identified any complaints as requiring resolution in advance of time-sensitive events like foreclosure or other legal proceedings.

Although it afforded no priority to complaints, FHFA recognized the importance of properly handling them. FHFA's Fiscal Year 2010 Performance and Accountability Report stated that the Agency was committed to providing accurate information to industry stakeholders and the public in a timely way. The Report also stated that FHFA continued to respond promptly to inquiries from the public, including complaints, during Fiscal Year 2010. However, no specific performance goal concerning complaints was established for 2010. For those inquiries that did not come within the Agency's purview, the Report stated that FHFA staff made every effort to direct the inquirer to the appropriate source. FHFA's Fiscal Year 2008 and 2009 Reports similarly emphasized the importance of timely responses to public inquiries. Nonetheless, FHFA's procedures were inconsistent with its stated intentions.²¹

FHFA-OIG analyzed the 470 complaints referred to the Enterprises. On average, FHFA took approximately 16 days to refer such complaints. However, a significant number of complaints took much longer to be referred: 86 complaints, or 18% of the 470, took more than 30 days for FHFA to forward the complaint to the Enterprises. Moreover, after the complaints were referred, FHFA did not routinely monitor the substance or timeliness of the responses to complainants by the Enterprises. Finally, when the Enterprises provided FHFA with a copy of their response to a complainant, the Agency accepted the Enterprises' responses at face value and performed no independent evaluation of the sufficiency or timeliness of the responses. Indeed, FHFA retrieved all disposition records and correspondence from the Enterprises in only 2 of 470 cases reviewed. As a result, FHFA lacks assurance regarding the responsiveness of the Agency and Enterprises to complainants.

Conclusion

FHFA's Performance Accountability Reports demonstrate that it recognizes the importance of responding appropriately to complaints from members of the public, including consumer complaints pertaining to the Enterprises. Further, OCO recently conducted a review of complaint procedures and encouraged the Agency to assume a more active role in the monitoring of complaints. Notwithstanding this, FHFA historically relegated processing complaints to a public or external relations function rather than treating it as a core supervisory and regulatory responsibility; thus, it provided minimal emphasis and resources to the task. FHFA needs to define clearly its complaint-related objectives, its role and responsibilities for meeting those

²¹ FHFA considered a complaint "closed" or "responded to" upon referral to either of the Enterprises, regardless of whether a substantive disposition had been achieved. Because approximately three quarters of FHFA's complaints were referred to the Enterprises, this resulted in the appearance that complaints were resolved more quickly than was the case.

objectives, and its means for gauging its performance in meeting its objectives. This is particularly important given FHFA's responsibilities as conservator for the Enterprises. FHFA would also benefit from establishing better oversight of the Enterprises' complaint procedures, including conducting periodic substantive reviews of statistically sound random samples of complaints processed and following-up on all complaints to help ensure appropriate disposition. FHFA should also be cognizant of the need to assign appropriate resources to the complaints process.

Recommendations

FHFA-OIG recommends that the Senior Associate Director for Congressional Affairs and Communications, in coordination with other appropriate FHFA officials:

- 1A. Design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that:
 - Define FHFA's and the Enterprises' roles and responsibilities regarding consumer complaints;
 - Require the retention of supporting documentation for all processing and disposition actions;
 - Require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints;
 - Ensure timely and accurate responses to complaints;
 - Facilitate the analysis of trends in consumer complaints received and use the resulting analyses to mitigate areas of risk to the Agency;
 - Safeguard personally identifiable information; and
 - Ensure coordination with FHFA-OIG regarding allegations involving fraud, waste, or abuse.
- 1B. Assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.
- 1C. Determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this performance audit was to assess how FHFA processed consumer complaints. Specifically, FHFA-OIG assessed the Agency's procedures and controls for receiving, processing, and resolving complaints from the public prior to the commencement of FHFA-OIG's operations.²² When designing the scope of this audit, FHFA-OIG's plan was to include all complaints received by FHFA from its inception on July 30, 2008, through October 31, 2010, a period of 27 months. However, that plan could not be carried out because FHFA was unable to provide a comprehensive analysis and adequate records of complaints that it had received.

Field work for this audit was performed from December 2010 through April 2011. FHFA-OIG conducted this audit at FHFA's three offices located in Washington, D.C., and reviewed available information on the processing of complaints. FHFA-OIG also interviewed FHFA personnel. To achieve its objective, FHFA-OIG relied on computer-processed and hard copy data from FHFA. This included data contained in the TRAKKER system, plus a spreadsheet and the Agency's MS Outlook email account. FHFA used the MS Outlook account to create an MS Access database of the emails that it considered to be complaints, and FHFA-OIG relied on this database. FHFA-OIG assessed the validity of the computerized data and found it to be generally accurate, but could not conclude on its completeness.

Regarding written complaints, FHFA was unable to identify for FHFA-OIG all written complaints received because the TRAKKER system did not segregate complaints, and FHFA would have had to perform a lengthy manual inspection to isolate all complaints. Alternatively, FHFA could not provide descriptive records sufficient to establish the number of complaints received and logged into the TRAKKER system, their subject matter, the means employed by FHFA to resolve them, or other relevant information. As a result, FHFA-OIG was unable to analyze written complaints.

With respect to telephone complaints, FHFA-OIG was provided a phone log with 283 entries that was created by an OCAC employee on her own initiative during the 5 month time period beginning in June 2010. The information that was recorded, however, primarily consisted of contact information and the nature of each call. This information was not sufficient to determine if a complaint was, in fact, received, or how FHFA resolved it. As a result, FHFA-OIG was unable to analyze the telephone complaints. These matters – concerning written and telephone complaints – constituted a scope limitation for this audit.

FHFA-OIG assessed the internal controls related to its audit objective. Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Effectiveness and efficiency of operations;

²² The audit was not intended or designed to assess how the Enterprises processed complaints.

- Reliability of financial report; and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives, and include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance. Based on the work completed on this performance audit, FHFA-OIG considers its finding on FHFA's oversight of the receipt, processing, and disposition of consumer complaints to be a significant deficiency in internal control within the context of the audit objective.

FHFA-OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that audits be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for FHFA-OIG's findings and conclusions based on the audit objective. FHFA-OIG believes that the evidence obtained provides a reasonable basis for the finding and conclusions included herein, based on the audit objective.

APPENDIX A:

FHFA'S COMMENTS TO FHFA-OIG'S DRAFT REPORT



Federal Housing Finance Agency

MEMORANDUM

TO: Russell Rau, Deputy Inspector General for Audit, Office of the Inspector General (OIG)

FROM: Meg Burns, Senior Associate Director, Office of Congressional Affairs and Communications (OCAC) *Meg Burns*

SUBJECT: Audit Report: Audit of Federal Housing Finance Agency's Consumer Complaint Process (AUD-2011-001)

DATE: June 6, 2011

This memorandum transmits the Federal Housing Finance Agency's (FHFA) management response to recommendations set forth in the OIG audit of FHFA's consumer complaints process, performed from December 2010 to April 2011.

This memorandum: (1) expresses management's agreement with the recommendations; and (2) identifies the actions that FHFA will take to address the recommendations.

Background

As a result of widespread distress in the housing market in 2008, FHFA began to receive an elevated level of public inquiries and complaints. Prior to that time, the Office of Federal Housing Enterprise Oversight, one of FHFA's predecessor agencies, received almost no correspondence or communications from individual consumers. The volume of calls and inquiries further increased upon deployment of the Administration's Home Affordable Modification Program (HAMP) program in mid-2009. Since that time, consumer inquiries, concerns, and complaints have been directed not only to FHFA but also to the Enterprises, the White House, federal and state banking regulators, and a number of other federal agencies -- often as multiple addressees on a single piece of correspondence. Unlike many of the other agencies that were receiving an increased number of public inquiries, FHFA had no dedicated staff nor procedures in place to handle the new responsibility. Further, the volume of calls and written complaints that FHFA received and continues to receive is substantially lower than that of other agencies that have a more consumer-facing orientation. That said, the informal process that was established was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the agency. FHFA's primary duty in handling the communications has been to refer consumers to other parties that can provide some form of assistance or relief.

To gain clarity about the relative demand on agency resources and whether the existing infrastructure needed upgrading, FHFA's Acting Director in 2010 requested that FHFA's Office of Internal Audit (OIA) conduct a survey of the agency's external communications infrastructure. OIA concluded that existing practices were insufficient to meet the greatly increased demand, and FHFA engaged the Concentrance Consulting Group (Concentrance) to assist the agency in designing a set of centralized and efficient policies and procedures, as well as automated tools to support FHFA's communications with external parties.

The Concentrance final report was received May 5, 2011. The objectives and options presented in that report are relevant to the OIG Audit report's three recommendations, and will help FHFA build on best practices identified at other agencies that also handle consumer inquiries and complaints.

We request that the OIG report include the date of the Concentrance final report, to provide balance and context to the statement on Page 8, paragraph 2, sentence 2 "...nor has it implemented any of the contractor's recommendations." Without the actual timeframe, it appears that FHFA has not considered the contractor's recommendations in a timely manner.

FHFA's response to the OIG recommendations follows:

Recommendation 1A: Design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that:

1. Define FHFA's and the Enterprises' roles and responsibilities regarding consumer complaints;
2. Require the retention of supporting documentation for all processing and disposition actions;
3. Require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints;
4. Ensure timely and accurate responses to complaints;
5. Facilitate the analysis of trends in consumer complaints received, and use the resulting analyses to mitigate areas of risk to the Agency;
6. Safeguard personally identifiable information; and
7. Ensure coordination with FHFA-OIG regarding allegations involving fraud, waste, or abuse.

Management Response:

FHFA agrees with the recommendation. The agency will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries. This work will be completed by December 31, 2011.

The written policy will clarify that FHFA will continue to accept consumer inquiries, promptly redirecting cases to an appropriate entity, while making clear that the agency has limited mandate and ability to impact the outcome of the vast majority of individual consumer issues. In the event that any trends can be discerned from the limited pool of inquiries that FHFA receives, the information received may be shared with the agency's examination staff.

Recommendation 1B: Assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.

Management Response:

FHFA agrees with the recommendation. FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures described above. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function. The assessment will be completed by December 31, 2011.

Recommendation 1C: Determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.

Management Response:

FHFA agrees with this recommendation. FHFA Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received. The example cited in the OIG report, to demonstrate that a consumer complaint could help the agency identify instances of significant fraud or misrepresentation, was not representative of the types of public inquiries that FHFA has received to date, nor was it within the scope of the audit, in terms of time frame or type of communication. FHFA requests that the two paragraphs that reference a reporter contacting the agency in June 2008, regarding an employee at Taylor, Bean, and Whitaker (TBW) and the ultimate resolution of TBW, be removed from the report.

APPENDIX B:

FHFA-OIG'S RESPONSE TO FHFA'S COMMENTS

On June 6, 2011, FHFA provided comments to a draft of this report agreeing with all the recommendations and identifying FHFA actions to address each recommendation. FHFA-OIG considers the actions sufficient to resolve the recommendations, which will remain open until FHFA-OIG determines that agreed upon corrective actions are completed and responsive to the recommendations. See Appendix C of this report for a summary of management's comments on the recommendations.

FHFA commented that the established, informal complaints process was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the Agency. FHFA-OIG considers the handling of consumer complaints to serve an important role in fulfilling the regulatory responsibilities of the Agency that should be integrated with its safety and soundness oversight of the Enterprises. Additionally, FHFA-OIG reemphasizes the importance of a consolidated management reporting system for all consumer complaints received by the Agency and the Enterprises as discussed in this audit report.

As the Agency requested, FHFA-OIG included the receipt date of May 5, 2011, for FHFA's contractor's final report on page 8 of this report.

FHFA noted that it has a limited mandate regarding consumer complaints. However, pursuant to 12 U.S.C. § 4513(a)(1)(B), FHFA has the authority to ensure that the Enterprises comply with FHFA's rules, regulations, guidelines, and orders, and that they operate in a fashion consistent with the public interest. FHFA – in its discretion – decided to implement this authority to handle consumer complaints. This audit assessed the quality of FHFA's implementation.

FHFA requested that FHFA-OIG remove from this report the discussion of TBW's fraud on Freddie Mac, claiming that it was outside the scope of this audit. FHFA-OIG disagrees. Although the initial complaint was submitted to FHFA's predecessor organization, OFHEO, one month before the audit period (and one month before OFHEO was consolidated into FHFA), FHFA was in possession of the complaint and aware of it during the audit period. Further, the fraud continued well into the audit period. FHFA's failure to act on the complaint serves as a stark example of the consequences of failing to appropriately address complaints of fraud, waste, or abuse.

Subsequent to receiving FHFA's comments to the draft report, the Agency provided FHFA-OIG with an expected completion date of December 31, 2011, for Recommendation 1C. Thus, this date was included in the summary of management's comments on the recommendations (see Appendix C).

APPENDIX C:

SUMMARY OF MANAGEMENT’S COMMENTS ON THE RECOMMENDATIONS

This table presents the management response to the recommendations in FHFA-OIG’s report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
1A	FHFA will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries.	12/31/2011	\$0	Yes	Open
1B	FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures cited in Recommendation 1A. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function.	12/31/2011	\$0	Yes	Open
1C	FHFA’s Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received.	12/31/2011	\$0	Yes	Open

^a Resolved means – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; (2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation; or (3) Management agrees to the OIG monetary benefits, a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

^b Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

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