



**FHFA Completed Most of its  
Planned Ongoing Monitoring  
Activities for Fannie Mae and CSS  
for 2019; However, FHFA Failed to  
Follow its Requirements When it  
Changed Examination Plans for  
Non-Risk-Based Reasons and Failed  
to Obtain Deputy Director Approval**



AUD-2020-011

September 9,  
2020

## Executive Summary

The Federal Housing Finance Agency (FHFA or Agency) is charged by the Housing and Economic Recovery Act of 2008 with the supervision of Fannie Mae and Freddie Mac (together, the Enterprises), any affiliate of the Enterprises, and the Federal Home Loan Banks (collectively, the regulated entities). Its mission as a federal financial regulator includes ensuring the safety and soundness of its regulated entities so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of the Enterprises.

In 2012, FHFA directed the Enterprises to build a Common Securitization Platform to replace their separate “back-office” systems and to issue a single mortgage-backed security. In 2013, FHFA directed the Enterprises to establish and fund a joint venture, Common Securitization Solutions, LLC (CSS), to develop and operate the Common Securitization Platform. As an affiliated entity of the Enterprises, CSS is subject to FHFA’s supervision.

FHFA maintains that it uses a risk-based approach to supervisory examinations, prioritizing examination activities based on the assessed risk of a given practice to a regulated entity’s safe and sound operation or to its compliance with applicable laws and regulations. Within FHFA, the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises and CSS. The Deputy Director, DER (Deputy Director), is responsible for providing management oversight, direction, and support for all examination activity involving the Enterprises, including the development of supervision findings and issuance of the annual reports of examination (ROEs).

DER examiners engage in ongoing monitoring to analyze information and to identify Enterprise practices and changes in an Enterprise’s risk profile that may warrant supervisory attention, as well as to determine the status of the Enterprise’s compliance with supervisory guidance and conservatorship directives and remediation of Matters Requiring Attention (MRAs). Ongoing monitoring is one of the two types of supervisory activities conducted by DER; the other supervisory activities are targeted examinations.

In light of our prior work going back to 2016 that found DER failed to complete many targeted examinations or to complete them timely, we performed this audit to determine whether DER completed its planned ongoing monitoring activities for Fannie Mae and CSS for the 2019 examination cycle (review period), and if it did not, whether it documented the deviations from its plans in accordance with its requirements.



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For Fannie Mae, we found that DER timely completed 33 (89%) of the 37 planned ongoing monitoring activities for the 2019 examination cycle, cancelled 1 (3%) in accordance with DER requirements, and cancelled 3 (8%) in contravention of those requirements. FHFA requires changes to planned supervisory activities to be risk-based, documented, and approved by the Deputy Director. Of the four cancelled ongoing monitoring activities, we found that DER documented a risk-based reason for cancelling three of them. However, the documented reason for cancelling the fourth ongoing monitoring activity was lack of resources, which is not risk-based. Also in contravention of DER requirements, we found that three of the four cancelled ongoing monitoring activities were not approved by the Deputy Director.

For CSS, we found that 3 of the 5 planned ongoing monitoring activities were timely completed. For the remaining two activities, one was completed after the examination cycle for which it was planned, and one was deferred. We found that the 2019 year-end examination plan for CSS did not document a risk-based reason for the one ongoing monitoring activity that was completed late (27 days after the Annual Supervisory Letter for that cycle). The reason documented for the deferred planned ongoing monitoring activity was resource related (not risk-based). Neither of these changes to the 2019 CSS examination plan were approved by the Deputy Director.

Based on our findings in this audit, we make two recommendations. In a written management response, FHFA stated that DER is planning to review and update its internal supervisory guidance on the examination planning process, and will reinforce the guidance requirements through training. We consider these corrective actions to be responsive to our recommendations.

We are also issuing today, a second report, *FHFA Completed All of its Planned Ongoing Monitoring Activities for Freddie Mac for 2019* (September 9, 2020) (AUD-2020-012), which undertakes the same assessment for DER's ongoing monitoring activities for Freddie Mac.

This report was prepared by Tara Lewis, Audit Director; Pamela L. Williams, Auditor-in-Charge; and Brian Maloney, Auditor; with assistance from Abdil Salah, Assistant Inspector General for Audits; and Bob Taylor, Senior Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaog.gov](http://www.fhfaog.gov), and [www.oversight.gov](http://www.oversight.gov).

Marla A. Freedman, Senior Audit Executive /s/

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## ABBREVIATIONS .....

CSS	Common Securitization Solutions, LLC
DER	Division of Enterprise Regulation
Deputy Director	Deputy Director, Division of Enterprise Regulation
EIC	Examiner-in-Charge
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
MRA	Matter Requiring Attention
OIG	Federal Housing Finance Agency Office of Inspector General
OPB	Operating Procedures Bulletin
ROE	Report of Examination

## BACKGROUND.....

### Effective Supervision by FHFA Is Vital to Ensure Safety and Soundness of Fannie Mae and CSS

FHFA maintains that it uses a risk-based approach to supervisory examinations, prioritizing examination activities based on the assessed risk of a given practice to a regulated entity’s safe and sound operation or to its compliance with applicable laws and regulations. Within FHFA, DER is responsible for supervision of the Enterprises and CSS. The Deputy Director is responsible for providing management oversight, direction, and support for all examination activity involving the Enterprises, including the development of supervision findings and issuance of the annual ROEs. Examination activity at each Enterprise is led by an examiner-in-charge (EIC), and conducted by a team of on-site examiners, in coordination with other subject matter experts. The EIC serves as the central point of contact for communication between DER and the Enterprises, and is responsible for the planning, execution, and documentation of examination activities.

FHFA conducts similar regulatory and supervisory activities for CSS’ activities and operations.<sup>1</sup> Beginning with the mid-year plan update in 2017, DER created a separate examination plan for CSS, approved by the Deputy Director, and primarily executed by the Fannie Mae examination team. Because the supervisory activities for CSS were primarily conducted by the Fannie Mae examination team and led by the Fannie Mae EIC in 2019 (our review period), CSS was included in the scope of this audit.

#### FHFA’s Examination Planning Process

According to FHFA’s *Examination Manual*, December 2013,<sup>2</sup> risk assessments provide the foundation for determining the supervisory activities to be conducted. Using the risk assessments, a supervisory strategy is prepared for each Enterprise by the DER examination teams. Once the annual supervisory strategy is approved, the strategy is implemented through an annual examination plan, prepared by the EIC for each Enterprise, and approved by the Deputy Director.

FHFA’s annual examination plans identify the supervisory activities, both ongoing monitoring and targeted examinations, expected to be completed during that examination

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<sup>1</sup> CSS examination planning, performance, and documentation follow DER procedures for the Enterprises to include DER’s OPBs *Examination Planning Process* (Apr. 1, 2019) (DER-OPB-2.5) and *Examination Processes and Documentation: Ongoing Monitoring* (Dec. 11, 2018) (DER-OPB-2.2).

<sup>2</sup> In March 2020, DER issued the *Enterprise Examination Manual* for examiners performing supervisory activities at Fannie Mae, Freddie Mac, and their affiliates.

cycle. Examiners conduct ongoing monitoring to analyze information and to identify Enterprise practices and changes in an Enterprise's risk profile that may warrant supervisory attention. Ongoing monitoring is also used to determine the status of the Enterprise's compliance with supervisory guidance, remediation of MRAs,<sup>3</sup> and conservatorship directives. Targeted examinations complement ongoing monitoring: they enable examiners to conduct "a deep or comprehensive assessment" of the areas found to be of high importance or risk.

An operating procedures bulletin (OPB) issued by DER in 2019, *Examination Planning Process*, provides that the examination plan may be modified during the course of the year to reflect changes in Enterprise business operations or risk exposures (risk-based reasons).<sup>4</sup> This OPB requires that any changes should be reflected in revisions to the plan, with documentation of the basis for the revisions. It instructs that any such revisions must be approved by the EIC and Deputy Director and approved as part of the mid-year planning process. The final examination plan is also approved as part of the year-end closeout process. Presumably, DER added the requirement for written Deputy Director approval to ensure that the Deputy Director, who is responsible for providing management oversight, direction, and support for all examination activity involving the Enterprises and CSS, properly executed these duties.

An OPB issued by DER in 2018, *Examination Processes and Documentation: Ongoing Monitoring*, directs that each ongoing monitoring activity is to be documented by an EIC-approved completed procedures document and analysis memorandum as of June 30 and as of December 31.<sup>5</sup> Additionally, a conclusion letter is to be issued to the Enterprise to communicate any adverse examination findings identified during ongoing monitoring activities. Prior to the issuance of this OPB, an analysis memorandum was not required if the ongoing monitoring did not identify an adverse examination finding.

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<sup>3</sup> Further, DER examiners may identify supervisory concerns or deficiencies occurring at an Enterprise as a result of ongoing monitoring or targeted examinations. MRAs are the most serious supervisory matters and fall into one of the following categories: (1) critical supervisory matters that pose substantial risk to the safety and soundness of the regulated entity, such as instances of noncompliance with laws or regulations of a serious nature or repeated criticisms that have escalated in importance because of insufficient attention or action; or (2) deficiencies that are supervisory concerns that FHFA believes could, if not corrected, escalate and potentially negatively affect the condition, financial performance, risk profile, operations, or reputation of the regulated entity.

<sup>4</sup> FHFA DER, OPB, *Examination Planning Process* (Apr. 1, 2019) (DER-OPB-2.5). DER's prior guidance, *Supervisory Planning Process* (2013-DER-OPB-03.1, issued October 2013), also required that adjustments to the examination plans be based on risk.

<sup>5</sup> The 2018 OPB states that the EIC may designate alternate time periods for this documentation, but time periods should not significantly exceed six months.

For the Enterprises, DER examiners summarize, in an annual ROE, examination results, conclusions, findings, and supervisory concerns from the supervisory activities completed during the annual examination cycle. For CSS, DER issued an Annual Supervisory Letter for 2019 to the CSS Chief Executive Officer, Board of Managers, and other CSS officials to provide a summary of the supervisory activities and related adverse examination findings. For the 2019 examination cycle, DER issued its ROE for Fannie Mae on March 31, 2020, and the Annual Supervisory Letter for CSS on April 1, 2020.

### **Prior Audits and Evaluations Found that FHFA Failed to Complete Many Targeted Examinations and Other Targeted Examinations Were Not Completed During the Examination Cycle for Which They Were Planned**

We have issued a series of reports on FHFA's implementation of planned supervisory activities for Fannie Mae. In a 2016 audit, we found that DER completed less than half of its 2012 through 2015 planned targeted examinations of Fannie Mae and did not complete many of its planned targeted examinations for each supervisory cycle prior to the issuance of the respective cycle's ROE.<sup>6</sup> In light of our findings in the 2016 audit, we performed a similar audit in 2019 to determine whether DER examiners completed the targeted examinations identified in each examination plan for Fannie Mae from 2016 through 2018, and compared the results to those of our 2016 audit. We found that timely completion of targeted examinations prior to issuance of the ROE improved but continued to be an issue.<sup>7</sup>

In addition, we assessed DER's implementation of supervisory activities in specific risk areas – cybersecurity and model risk – and found that DER fell short in completion of planned supervisory activities. In a 2017 audit related to Fannie Mae's management of cybersecurity risk, we found that DER completed none of the planned supervisory activities during 2016 (other than closing MRAs issued in prior years).<sup>8</sup> We also looked at the Enterprises' management of model risk in a 2020 evaluation and found that DER completed 20% of its targeted examinations (24 of the Enterprises' combined 120 high-risk models over six examination cycles). In that evaluation, we concluded that the failure to complete targeted examinations of high-risk models demonstrated the impact of a lack of workforce planning

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<sup>6</sup> See OIG, *FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued* (Sept. 30, 2016) (AUD-2016-006) (online [here](#)).

<sup>7</sup> See OIG, *FHFA's Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS* (Sept. 17, 2019) (AUD-2019-012) (online [here](#)).

<sup>8</sup> See OIG, *FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle* (Sept. 27, 2017) (AUD-2017-010) (online [here](#)).

with respect to the qualifications of examiners, the appropriate number of model examiners, and the number of high-risk models to examine during each annual examination cycle.<sup>9</sup>

In 2020, we issued an audit that assessed whether DER adopted and implemented a systematic supervisory workforce planning process, as it had previously committed to do. We found that DER failed to implement such a process and lacked a basis to determine whether its current complement of examiners had the necessary skills and experience to carry out supervision of the Enterprises.<sup>10</sup>

## FACTS AND ANALYSIS .....

### **For the 2019 Examination Cycle, DER Completed 89% (33 of 37) of its Planned Ongoing Monitoring Activities for Fannie Mae Before the ROE Issued, Cancelled 3% (1 of 37) in Accordance with DER Requirements, and Cancelled 8% (3 of 37) in Contravention of those Requirements**

According to FHFA, DER examiners engage in ongoing monitoring to analyze information and to identify Enterprise practices and changes in an Enterprise’s risk profile that may warrant supervisory attention, as well as to determine the status of the Enterprise’s compliance with supervisory guidance and conservatorship directives and remediation of MRAs. Ongoing monitoring is one of the two types of supervisory activities conducted by DER to ensure the safety and soundness of the Enterprises’ (and their affiliates) operations. In light of the findings in our prior work on DER’s completion of planned supervisory activities, we performed this audit to analyze whether DER completed the ongoing monitoring activities identified in its 2019 examination plan (review period) for Fannie Mae.

Consistent with DER’s guidance in OPB, *Examination Processes and Documentation: Ongoing Monitoring*, we considered an ongoing monitoring activity to be “commenced” when the initial procedures document for that activity was approved by the EIC.<sup>11</sup> We considered an ongoing monitoring activity to be “completed” when the supporting documents were completed and approved (e.g., procedures documents, analysis memoranda, and

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<sup>9</sup> See OIG, *Despite FHFA’s Recognition of Significant Risks Associated with Fannie Mae’s and Freddie Mac’s High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely* (Mar. 25, 2020) (EVL-2020-001) (online [here](#)).

<sup>10</sup> See OIG, *Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac* (Feb. 25, 2020) (AUD-2020-004) (online [here](#)).

<sup>11</sup> The initial procedures document states the objectives and scope of the activity and the specific work steps to meet the ongoing monitoring objective.

conclusion letter, if issued).<sup>12</sup> We considered an ongoing monitoring activity to be “not conducted” when DER documents showed that the status of that activity was deferred or cancelled.

As described below, we performed tests to determine whether DER completed its planned ongoing monitoring activities for Fannie Mae during the 2019 examination cycle, and if it did not, whether it documented the deviations from its plans in accordance with its requirements and whether the documented reasons aligned with the OPB.

### ***Testing to Determine Completion of Planned Ongoing Monitoring Activities for Fannie Mae***

We tested whether DER completed its planned ongoing monitoring activities for Fannie Mae during the 2019 examination cycle. We developed a list of the Fannie Mae ongoing monitoring activities planned by DER for the 2019 examination cycle from annual examination plans obtained from FHFA’s Information Management System, DER’s system of record, and DER officials. For the 2019 examination cycle, we identified 37 planned ongoing monitoring activities for Fannie Mae.

#### **Result of Test:**

For Fannie Mae, we determined that 33 (89%) of the 37 planned ongoing monitoring activities for the 2019 examination cycle were completed and 4 (11%) were cancelled. The 33 ongoing monitoring activities were completed before the 2019 ROE issued and we considered those to be timely.

### ***Testing to Determine Appropriate Documentation and Approvals of Changes to the Fannie Mae Examination Plan***

Of the 37 planned ongoing monitoring activities for Fannie Mae, 4 of the 37 were not conducted. For the 2019 examination cycle, DER documented the status of its planned ongoing monitoring activities in the mid-year and year-end examination plans.

We reviewed those examination plans with respect to the status of these four planned ongoing monitoring activities to determine whether DER’s requirements were met. Specifically, we tested: (1) whether a risk-based reason for not conducting the activities was documented in

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<sup>12</sup> According to DER’s *OPB Examination Processes and Documentation –Ongoing Monitoring*, supporting documentation for ongoing monitoring activities includes the following: (1) procedures documents as of June 30 and/or December 31; (2) analysis memoranda as of June 30 and/or December 31; and (3) signed conclusion letter (if adverse examination findings were identified).

the mid-year or year-end examination plan and (2) whether these revisions to the plans were approved by the EIC and Deputy Director.

Result of Test:

We found that the reasons for not conducting the four planned ongoing monitoring activities for Fannie Mae were documented in either the mid-year or the year-end examination plan.

With respect to Fannie Mae, DER records report that three of the four planned ongoing monitoring activities were cancelled for risk-based reasons: (1) one activity was cancelled because substantive changes were made to the methodology used in a particular business area; (2) one activity was cancelled in favor of a targeted examination focused on the same business process scheduled for the 2020 examination cycle; and (3) one activity was initially delayed pending completion of another related ongoing monitoring activity and later cancelled because according to DER officials, it did not rise to the level of risk for it to be included in the 2020 examination plan. The fourth planned ongoing monitoring activity was cancelled due to a non-risk-based reason, lack of resources, because DER reassigned three examiners to other offices within DER and a fourth examiner left FHFA.<sup>13</sup> DER guidance does not authorize cancellation of supervisory activities for non-risk-based reasons.

Our testing found that only one of the four cancelled ongoing monitoring activities was approved by the EIC and Deputy Director as part of the “formal” approval of the mid-year examination plan for Fannie Mae. The remaining three changes occurred after mid-year and were approved by the EIC for Fannie Mae as part of the 2019 year-end examination plan close out process. DER was unable to provide evidence that these changes were approved by the Deputy Director who was in place at the time the changes were made.<sup>14</sup>

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<sup>13</sup> In our report, *Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac* (Feb. 25, 2020) (AUD-2020-004) (online [here](#)), we recommended that FHFA develop and implement a systematic workforce planning process to include, among other things, identifying the current examination skills and competencies of its examiners and forecasting the optimal staffing levels and competencies needed to meet its supervisory needs.

<sup>14</sup> On January 30, 2020, FHFA announced a realignment of its Agency structure, which included hiring a new Deputy Director and Associate Director for DER.

## **For CSS, DER Completed 60% (3 of 5) of its Planned Ongoing Monitoring Activities Before the CSS Annual Supervisory Letter Issued; However, the Remaining 40% Failed to Meet DER Requirements**

As part of this audit, we also performed tests to determine whether DER completed the ongoing monitoring activities identified in its 2019 examination plan for CSS, and if it did not, whether the deviations from its plans aligned with the OPB and were documented.

### ***Testing to Determine Completion of Planned Ongoing Monitoring Activities for CSS***

We tested whether DER completed its planned ongoing monitoring activities for CSS during the 2019 examination cycle. We developed a list of the CSS ongoing monitoring activities planned by DER for the 2019 examination cycle from annual examination plans obtained from FHFA's Information Management System, DER's system of record, and DER officials. For the 2019 examination cycle, we identified five planned ongoing monitoring activities for CSS.

#### Result of Test:

For CSS, we determined that 3 of the 5 planned ongoing monitoring activities were timely completed. However, one was not completed until after the examination cycle for which it was planned,<sup>15</sup> and one was deferred.

### ***Testing to Determine Appropriate Documentation and Approvals of Changes to the CSS Examination Plan***

Two of the five ongoing monitoring activities planned for CSS for the 2019 examination cycle were not completed within the examination cycle. One was completed after the examination cycle for which it was planned, and one was deferred.

We reviewed DER's mid-year and year-end examination plans to determine whether DER's requirements were met with respect to documentation and approvals for these two changes to the 2019 CSS examination plan. Specifically, we tested: (1) whether a risk-based reason for a change to the examination plan was documented in the mid-year or year-end examination plan and (2) whether the revision to the plan was approved by the EIC and Deputy Director.

#### Result of Test:

We found that the 2019 year-end examination plan for CSS did not document a risk-based reason for the one ongoing monitoring activity that was completed late

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<sup>15</sup> This CSS ongoing monitoring activity was completed 27 days after the Annual Supervisory Letter for the 2019 examination cycle issued.

(27 days after the Annual Supervisory Letter issued for that cycle). We also found that the reason provided in the year-end examination plan for the deferral of the other CSS ongoing monitoring activity was resource related, not risk-based. DER officials explained that they transferred the examiner assigned to this activity to replace an examiner who was experiencing performance issues on another examination activity. DER was unable to provide evidence that these changes were approved by the Deputy Director at the time the changes were made.

## FINDINGS .....

- For the 2019 Examination Cycle, DER completed 89% (33 of 37) of its planned ongoing monitoring activities for Fannie Mae before the ROE issued, cancelled 3% (1 of 37) in accordance with DER requirements, and cancelled 8% (3 of 37) in contravention of those requirements.
- For CSS, DER completed 60% (3 of 5) of its planned ongoing monitoring activities before the CSS Annual Supervisory Letter issued; however, the remaining 40% (2 of 5) failed to meet DER requirements.
- Failure to follow clear DER requirements (requiring a risk-based reason to change planned ongoing monitoring activities and written approval from the Deputy Director) creates the risk that the Deputy Director has not provided effective management oversight, direction, and support for all examination activity involving the Enterprise and CSS, including the development of supervision findings and issuance of the annual ROEs.

## CONCLUSION .....

While DER completed most of its planned ongoing monitoring activities for Fannie Mae and CSS during the 2019 examination cycle, some ongoing monitoring activities were cancelled or deferred for non-risk-based reasons (lack of resources), in contravention of DER requirements. Another ongoing monitoring activity was completed after the 2019 examination cycle ended with no documented reason.

Further, DER was unable to provide evidence that all of the changes made to the examination plans for Fannie Mae and CSS were approved by the Deputy Director in place at the time the changes were made. Accordingly, FHFA cannot be assured that the Deputy Director was able to effectively perform the responsibilities required by the position.

## RECOMMENDATIONS.....

We recommend that FHFA:

1. Reinforce the requirement to EICs and examination managers that changes to an examination plan must be risk-based – changes in Enterprise business operations or risk exposures – and that resource constraints are not accepted reasons for such changes.
2. Reinforce the requirement that any revisions to an examination plan must be approved in writing by the Deputy Director.

## FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA an opportunity to respond to a draft of this audit report. FHFA provided technical comments on the draft report and those comments were considered in finalizing this report. FHFA also provided a management response, which is included in the Appendix of this report. In its management response, FHFA stated that DER is planning to review and update its internal supervisory guidance on the examination planning process. Once done, FHFA stated that it will reinforce through training to the EICs and all examination managers the requirements in its updated supervisory guidance on the examination planning process, including any revisions to the requirements for changes to the examination plans and approvals of these changes. According to FHFA, these corrective actions will be taken on or before May 31, 2021. We consider FHFA’s planned corrective actions responsive to our recommendations.

## OBJECTIVE, SCOPE, AND METHODOLOGY.....

The objective of the audit was to determine whether FHFA’s DER completed its planned ongoing monitoring activities for Fannie Mae and CSS for the 2019 examination cycle (review period), and if it did not, whether it documented the deviations from its plans in accordance with its requirements.

To accomplish our objective, we:

- Reviewed FHFA’s guidance in effect during our review period, including FHFA’s *Examination Manual*; DER’s OPBs, *Examination Planning Process*; *Examination*

*Processes and Documentation – Ongoing Monitoring; Examination Processes and Documentation – Targeted Examinations; Document Management Guidance; Reports of Examination; Enterprise Supervision Program; and FHFA Advisory Bulletin 2017-01, Classifications of Adverse Examination Findings;*

- Reviewed FHFA’s examination plans for 2019 for Fannie Mae and CSS to identify the universe of planned ongoing monitoring activities;
- Compared the planned ongoing monitoring activities for Fannie Mae and CSS – as described in FHFA’s examination planning documents – to the ongoing monitoring procedures documents, analysis memoranda, and other relevant documentation in order to determine whether FHFA completed its planned ongoing monitoring activities for the 2019 examination cycle, and if it did not, to identify the disposition of the ongoing monitoring activities (i.e., cancelled or deferred);
- Assessed whether DER completed the planned ongoing monitoring activities for the 2019 examination cycle prior to the ROE (for Fannie Mae) or Annual Supervisory Letter (for CSS) issued;
- Reviewed FHFA’s changes to its 2019 examination plans for ongoing monitoring activities for Fannie Mae and CSS to determine if the changes were documented and approved in accordance with policies and procedures; and
- Interviewed FHFA officials regarding their implementation of the 2019 examination plans for ongoing monitoring activities for Fannie Mae and CSS.

We conducted this performance audit from March 2020 to September 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX: FHFA MANAGEMENT RESPONSE.....



# Federal Housing Finance Agency

### MEMORANDUM

TO: Marla A. Freedman, Deputy Inspector General for Audits  
FHFA Office of Inspector General (OIG)

FROM: Paul J. Miller, Deputy Director *PJM*  
FHFA Division of Enterprise Regulation (DER)

SUBJECT: Draft Audit Report: *FHFA Completed Most of its Planned Ongoing Monitoring Activities for Fannie Mae and CSS for the 2019 Examination Cycle; However, FHFA Failed to Follow its Requirements When it Changed Examination Plans for Non-Risk-Based Reasons and Failed to Obtain Deputy Director Approval*

DATE: August 31, 2020

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Thank you for the opportunity to respond to the draft audit report referenced above (Report). We appreciate the OIG's acknowledgment that DER completed the majority of its planned 2019 ongoing monitoring activities at Fannie Mae and Common Securitization Solutions. The draft Report makes two recommendations:

**Recommendation 1:** *OIG recommends that FHFA reinforce the requirement to EICs and Examination Managers that changes to an examination plan must be risk-based – changes in Enterprise business operations or risk exposures, and that resource constraints are not accepted reasons for such changes.*

**Recommendation 2:** *OIG recommends that FHFA reinforce the requirement that any revisions to an examination plan must be approved in writing by the Deputy Director.*

**Management Response:** DER is planning to review and update its internal supervisory guidance on the examination planning process. DER agrees to reinforce the guidance requirements in the updated supervisory guidance. By May 31, 2021, DER will reinforce through training to the Examiners-in-Charge and all examination managers the requirements in its updated supervisory guidance on the examination planning process, including any revisions to the requirements for changes to the examination plans and approvals of these changes.

We would like to thank the OIG staff that worked with the Agency during this audit. If you have any questions related to our response, please do not hesitate to contact Eric Wilson.

cc: Chris Bosland  
Kate Fulton  
Scott Valentin  
Eric Wilson  
John Major

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