AUDIT, EVALUATION, AND COMPLIANCE PLAN

March 2021

OVERVIEW

This Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) Audit, Evaluation, and Compliance Plan describes FHFA's and OIG's roles and missions, explains OIG's risk-based methodology, provides insight into risks attendant to five areas of FHFA's programs and operations, and discusses generally the focus of OIG's audit, evaluation, and compliance efforts during calendar year 2021.

We are mindful that measures continue to be taken to mitigate the impacts of the COVID-19 pandemic on the nation's citizens and financial system, including the FHFA-regulated entities. We will consider those impacts in scoping the oversight work we undertake in 2021.

BACKGROUND

Federal Housing Finance Agency

FHFA was established by the Housing and Economic Recovery Act of 2008 (HERA)[1] to regulate Fannie Mae, Freddie Mac (together, the Enterprises), the Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities), and the FHLBanks' fiscal agent, the Office of Finance. FHFA's mission is to "[e]nsure that the regulated entities fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity and funding for the housing finance market throughout the economic cycle."[2, 3]

Since September 2008, FHFA also has been the Enterprises' conservator. FHFA placed the Enterprises into conservatorships "in response to a substantial deterioration in the housing markets that severely damaged each Enterprise's financial condition and left both of them unable to fulfill their mission without government intervention."[4] When then-Secretary of the Treasury Henry Paulson announced the conservatorships in September 2008, he explained that they were meant to be a "time out" during which the Enterprises would be stabilized, enabling the "new Congress and the next Administration [to] decide what role government in general, and these entities in particular, should play in the housing market."[5] However, putting the Enterprises into

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1 Public Law No. 110-289 (2008).

2 The Enterprises purchase mortgages from lenders and either package them into mortgage-backed securities that are sold to investors or hold them in their portfolios. By doing so, the Enterprises' actions promote liquidity in the housing finance system. Among other activities, the FHLBanks make secured loans known as advances to their members, such as banks or thrifts. Their members can use the advance proceeds to originate mortgages or support affordable housing or community development.

3 FHFA, *FHFA Strategic Plan: Fiscal Years 2021-2024* (Oct. 27, 2020).

4 FHFA, History of Fannie Mae & Freddie Mac Conservatorships.

5 Statement by Treasury Secretary Henry M. Paulson, Jr., on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers (Sept. 7, 2008).

conservatorships has proven to be far easier than taking them out, and the "time out" period for the conservatorships is now in its 13th year.

FHFA's two conservatorships are of unprecedented scope and undetermined duration. The two entities dominate the U.S. secondary mortgage market and the mortgage securitization sector and thus affect the entire mortgage finance industry. While in conservatorship, the Enterprises have required almost $191.5 billion in financial investment from the Department of the Treasury (Treasury) to avert their insolvency and, through December 2020, the Enterprises have paid to the Treasury more than $301 billion in dividends on its investment. Despite their high leverage, limited capital, conservatorship status, and uncertain future, the Enterprises' guarantee portfolios have grown during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is more than 70%. As of December 31, 2020, the Enterprises' combined total assets are more than $6.6 trillion and their combined debt exceeds $6 trillion.

FHFA Office of Inspector General

Congress established OIG with a mission to promote economy, efficiency, and effectiveness in the administration of FHFA's programs and operations, and to prevent and detect fraud, waste, and abuse in those programs and operations.[6] The FHFA Inspector General is presidentially appointed and Senate confirmed.

Our Vision

We seek to be an organization that promotes excellence and trust through exceptional service to FHFA, Congress, and the American people. OIG achieves this vision by being a first-rate independent oversight organization in the federal government that acts as a catalyst for effective management, accountability, and positive change in FHFA. In addition, we are committed to holding accountable those, whether inside or outside of the federal government, who waste, steal, or abuse funds in connection with the Agency, the Enterprises, or the FHLBanks.

Our Mission

OIG promotes economy, efficiency, and effectiveness and helps protect FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system. We accomplish this mission by providing independent, relevant, timely, and transparent oversight of the Agency to promote accountability, integrity, economy, and efficiency. We also advance our mission by advising the Director of the Agency and Congress, informing the public, and engaging in robust law enforcement efforts to protect the interests of the American taxpayers.

[6] Section 1105 of HERA amended the Inspector General Act of 1978, Public Law No. 95-452, to establish OIG.

Our Organization

OIG consists of the Inspector General, her senior staff, and operational and support offices. The operational offices are the Offices of Audits (OA), Evaluations (OE), Investigations (OI), and Compliance and Special Projects (OCom). This Audit, Evaluation, and Compliance Plan most directly impacts OA, OE, and OCom. Supporting our mission is OIG's Office of Risk Analysis (ORA), which is tasked with identifying, analyzing, monitoring, and prioritizing emerging and ongoing risks to enable us to adjust our focus and deploy our assets to address them.

OIG Office of Audits

OA conducts independent performance audits with respect to the Agency's programs and operations. It also undertakes projects to address statutory requirements and stakeholder requests. As required by the Inspector General Act of 1978,[7] OA performs its audits in accordance with standards promulgated by the Comptroller General of the United States, commonly referred to as generally accepted government auditing standards (Yellow Book). OA also oversees independent public accounting firms that perform certain audits of FHFA programs and operations.

OIG Office of Evaluations

OE conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the Inspector General Reform Act of 2008,[8] inspectors general are required to adhere to the professional standards designated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the standards CIGIE established for inspections and evaluations, which are known as the *Quality Standards for Inspection and Evaluation* (Blue Book).

OIG Office of Compliance and Special Projects

OCom is charged with several responsibilities: tracking the status of all OIG recommendations, from issuance to closure to subsequent follow-up and testing; communicating with each office prior to closure of a recommendation to ensure that a single standard across OIG for closing recommendations is followed; and holding FHFA accountable for corrective actions it represents it has implemented by conducting validation testing on samples of closed recommendations. The results of OCom's validation testing are published as compliance reviews.

In addition, OCom undertakes special projects, including reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct. It performs its compliance reviews and special projects in accordance with the Blue Book.

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[7] Public Law No. 95-452.

[8] Public Law No. 110-409.

RISK ASSESSMENTS

OIG focuses its resources on the Agency programs and operations that pose the greatest financial, governance, and/or reputational risk to it, the Enterprises, and the FHLBanks. We identify the most significant risks in two periodic publications—our Strategic Plan and our Audit, Evaluation, and Compliance Plan. Our risk assessments are also informed by the work done by ORA. Through its work, it contributes data and information to our annual risk-based planning process for audits, evaluations, and compliance reviews.

Strategic Plan

In February 2018, OIG issued *Strategic Plan: Fiscal Years 2018–2022*. It sets forth four high-level goals, of which three serve as a blueprint for our oversight of FHFA.[9] These three goals are:

- Strategic Goal 1—Promote FHFA's effective supervision of the Enterprises and the FHLBanks to ensure their safety and soundness.
- Strategic Goal 2—Promote FHFA's effectiveness as conservator of the Enterprises.
- Strategic Goal 3—Prevent and detect fraud, waste, and abuse in the programs and operations of the Agency.

OIG will continue to monitor events with the potential to have an impact upon FHFA and housing finance, including the COVID-19 pandemic, and make changes to our Strategic Plan as appropriate.

Audit, Evaluation, and Compliance Plan

This Audit, Evaluation, and Compliance Plan[10] focuses on four areas of significant risk facing FHFA and one area of management concern inhabiting the three high-level goals in the Strategic Plan. Those risk areas are:

- Conservatorship operations,
- Supervision of the regulated entities,

[9] The plan also includes a fourth goal of promoting excellence and effectiveness in OIG internal operations.

[10] These plans are fluid; they are neither final nor all-inclusive. They do not include, for example, audits, evaluations, compliance reviews, or special projects that OIG may undertake pursuant to requests from FHFA, Congress, and other stakeholders, or situations to which OIG's attention may be drawn as a result of our ongoing activities. They also do not include several statutorily required reviews—such as the annual independent evaluation pursuant to the Federal Information Security Modernization Act of 2014 of FHFA's information security program and practices (see 44 U.S.C. § 3555) and the improper payments audit (see 31 U.S.C. § 3321 note)—that OIG will conduct.

- Cybersecurity at the regulated entities and information security at FHFA,
- Counterparties and third parties, and
- Internal controls over Agency operations (management concern).

Conservatorship Operations

As the Enterprises' conservator since September 2008, FHFA has broad authority to oversee and direct their operations. The Agency possesses all the rights and powers of any Enterprise stockholder, officer, or director, and is vested with express authority to operate the Enterprises and conduct their business activities. As a consequence, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue; it makes business and policy decisions that impact the entire mortgage finance industry.

In November 2020, FHFA announced a final rule establishing a new regulatory capital framework for the Enterprises.[11] The FHFA Director emphasized that a capital rule is "a critical step toward responsibly ending the conservatorships" and that ending the conservatorships will be "process-driven, not calendar-driven."[12] In January 2021, FHFA and the Treasury also announced amendments to the Preferred Stock Purchase Agreements that allow the Enterprises to continue to retain earnings until they satisfy the requirements of the new capital rule. However, the FHFA Director acknowledged that "[r]etained earnings alone are insufficient to adequately capitalize the Enterprises."[13]

In September 2020, the FHFA Director testified before Congress: "Fannie and Freddie have what I would consider some of the worst corporate cultures I've ever seen in corporate America."[14] During that same testimony, he explained that "fixing that is a fundamental prerequisite" to the Enterprises exiting conservatorship and acknowledged that the Agency has "a lot of work to do on that front."[15]

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[11] According to FHFA, as of June 30, 2020, the Enterprises together would have been required under the final rule to maintain $207 billion in common equity tier 1 capital, $265 billion in tier 1 capital, and $283 billion in adjusted total capital to avoid limits on capital distributions and discretionary bonus payments.

[12] *See* FHFA, *Prepared Remarks of Dr. Mark A. Calabria, Director of FHFA, at Mortgage Bankers Association 2020 Annual Convention and Expo* (Oct. 19, 2020).

[13] *See* FHFA, *FHFA and Treasury Allow Fannie Mae and Freddie Mac to Continue to Retain Earnings* [Press Release] (Jan. 14, 2021).

[14] *See* U.S. House Committee on Financial Services, *Prioritizing Fannie's and Freddie's Capital over America's Homeowners and Renters? A Review of the Federal Housing Finance Agency's Response to the COVID-19 Pandemic* (Sept. 16, 2020) (FHFA Director's response to a question from Congressman Barry Loudermilk, at approximately 3:03 hours).

[15] *Id.*

As FHFA has made clear, much work must be done on several fronts before the conservatorships can end.[16]

Given the taxpayers' enormous investment in the Enterprises, the unspecified timeline to end the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their uncertain ability to sustain future profitability, FHFA's administration of the conservatorships remains a major risk.

Oversight of Delegated Matters and Management of Non-Delegated Matters

FHFA has delegated authority to the Enterprises for many matters, both large and small. The Enterprises acknowledge in their public securities filings that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, when required, of the conservator. FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions).

Our body of work over the last six years has found that FHFA has limited its oversight of delegated matters largely to attending (as an observer) Enterprise internal management and board meetings and to engaging in discussions with Enterprise managers and directors. Read together, the findings in our reports demonstrate that, for the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions taken pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives, or the adequacy of director oversight of management actions.

FHFA also has not clearly defined its expectations of the Enterprises for delegated matters, nor has it established the accountability standard it expects the Enterprises to meet for such matters. Our work identified that certain internal control systems at the Enterprises were ineffective: they failed to provide directors with accurate, timely, and sufficient information to enable them to perform their oversight duties. Likewise, we have identified a lack of rigor by some directors in seeking information from management about the matters for which they are responsible. We also identified instances in which corporate governance decisions generally reserved to the boards of directors have been delegated to management.

For the Enterprises to be governed effectively, their boards of directors and management must fulfill their delegated responsibilities. However, our independent testing in 2020 and 2021 revealed continued challenges to Enterprise compliance with FHFA directives and Enterprise execution of some of their responsibilities. Our findings over the last six years about these weaknesses were echoed by Director Calabria six months ago at a congressional hearing, quoted above.

[16] As of December 31, 2020, Fannie Mae and Freddie Mac reported total equity of $25.3 billion and $16.4 billion, respectively.

Generally, FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value. It is important that FHFA fulfill its conservatorship obligations with appropriately robust review and approval processes for non-delegated matters, which will enable FHFA to track, analyze, and resolve such matters, and provide decision-makers with all relevant information in a prompt and timely manner.

As the Enterprises' conservator, FHFA is ultimately responsible for actions taken by the Enterprises, pursuant to authority it has delegated to them. FHFA's challenge, therefore, is to improve the quality of its oversight of matters it has delegated to the Enterprises and ensure that its established processes are followed for non-delegated matters to promote reasoned decision-making.

In the coming year, we intend to continue to review governance issues relating to FHFA's delegation of matters to the Enterprises and the Agency's process for tracking and resolving certain non-delegated matters.

Our efforts are intended to assist FHFA in improving the effective management of the conservatorships.

Supervision

As the Enterprises' and the FHLBanks' supervisor, FHFA is required to ensure that they operate safely and soundly, and serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA's supervisory mission. Within FHFA, the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises and the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks.

In its *2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, issued on October 28, 2019, FHFA stated that its capacity to supervise the Enterprises must be "on par with that of other independent federal financial regulators" before releasing them from conservatorship.[17] The FHFA Director, in subsequent written Congressional testimony, reinforced that advice: he represented that "effective safety and soundness supervision…is essential to preparing the Agency and the Enterprises to responsibly exit and operate safely outside of conservatorship."[18] As he explained in prior written testimony, the Enterprises must be "well-regulated" before they can "responsibly" be released from conservatorship.[19]

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[17] FHFA, *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (Oct. 28, 2019).

[18] FHFA, *Statement of Dr. Mark A. Calabria, FHFA Director, Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs* (June 9, 2020).

[19] FHFA, *Statement of Dr. Mark A. Calabria, FHFA Director, Before the U.S. House of Representatives Committee on Financial Services* (Oct. 22, 2019).

In March 2020, we reviewed the more than 40 reports we issued since October 2014 on FHFA's supervision program for the Enterprises. Thirty-four of these reports, read together, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution. We identified deficiencies in these areas: (1) examination guidance and execution; (2) the size of the examiner workforce and the training and qualifications of its members; (3) communication of supervisory findings; and (4) quality control.[20] We have also reported that DER has struggled to complete remediation of the chronic and pervasive deficiencies in a timely manner, or has abandoned, not fully completed, or completed in form and not substance, actions it undertook to remediate these deficiencies. As we have shown, FHFA's supervision program for the Enterprises falls short of its announced goal to have "effective safety and soundness supervision" before it can safely release the Enterprises from conservatorship.

Consequently, the challenge facing FHFA is formidable: it must accomplish a great deal to remediate the deficiencies identified by us and by FHFA. FHFA has taken preliminary steps to upgrade and strengthen its supervision program. In May 2020, it engaged a contractor to prepare an "organizational optimization Blueprint" to ensure FHFA "has the optimal workforce, infrastructure, and organization to carry out its supervisory mission in a post-conservatorship environment." In September 2020, FHFA announced a new strategic plan for the Agency (covering FYs 2021-24). Among other things, the new strategic plan announces that FHFA will "develop and maintain a world-class supervision program."[21] The means and strategies to achieve this objective include, for example, "[a]dvance supervision practices, processes, systems, and tools to improve the efficiency and efficacy of the supervision programs…."

Almost an entire year has passed since we issued our report summarizing the chronic and pervasive shortcomings in FHFA's supervision program. Since then, the Agency has not announced any key substantive decisions or definitive plans to "develop and maintain a world-class supervision program," which it recognizes is a pre-requisite to releasing the Enterprises from conservatorship. Instead, its efforts to "develop and maintain" an effective supervision program have been further delayed. In its December 2020 Annual Performance Plan, FHFA advised that it intends to "[d]evelop an action plan to address improvement opportunities identified in FHFA's optimization study to further the development of a world-class supervision program" by June 30, 2021.[22]

The magnitude of the risk posed by the Enterprises is significantly greater than the magnitude of the risk posed by the FHLBanks and the Office of Finance together because the asset size of the

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[20] OIG, *FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac* (OIG-2020-002, Mar. 30, 2020).

[21] FHFA, *FHFA Strategic Plan: Fiscal Years 2021-2024* (Oct. 27, 2020).

[22] FHFA, *Annual Performance Plan for Fiscal Year 2021* (Dec. 31, 2020) (Strategic Objective 1.2, Performance Measure 1.2.3).

latter is a fraction of the asset size of the former. For that reason, the majority of OIG's work on supervision issues has focused on FHFA's supervision of the Enterprises. However, we also review FHFA's supervision program for the FHLBanks. While we have found some shortcomings in that supervision program, we have not identified significant weaknesses in it. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

This year, we will continue to assess the rigor of some of the elements of FHFA's supervisory programs, to include assessments of its (1) efforts to update examination guidance, including its examination manual, and upgrade its supervision program; (2) execution of planned supervisory activities of the Enterprises; (3) oversight of the Enterprises' compliance with supervisory requirements and expectations; and (4) compliance with its established guidelines on examinations of the FHLBanks. We will also continue to review whether FHFA has implemented prior recommendations to strengthen its supervisory programs and assess the adequacy of those remedial measures, and monitor FHFA's efforts to strengthen its Enterprise supervision program.

Our efforts are intended to assist FHFA in improving the effectiveness of its supervision of the Enterprises and the FHLBanks.

Cybersecurity at the Regulated Entities and Information Security at FHFA

Cybersecurity, as defined by the National Institute of Standards and Technology (NIST), is "the process of protecting information by preventing, detecting, and responding to attacks." The Financial Stability Oversight Council (FSOC), of which FHFA is a member, has recognized that a destabilizing cybersecurity incident could threaten the stability of the U.S. financial system. In December 2020, FSOC reported:

> Greater reliance on technology, particularly across a broader array of interconnected platforms, increases the risk that a cybersecurity incident may have severe consequences for financial institutions…. Sustained senior-level commitment to mitigate cybersecurity risks and their potential systemic implications is necessary at both member agencies and private firms.[23]

According to FSOC, "the rapid shift towards working from home has also increased cybersecurity risks in the financial sector. Market participants have observed malicious actors' use of COVID-19-themed phishing attacks to increase their success at compromising less secure home networks."

FHFA's regulated entities are central components of the U.S. financial system, and they are interconnected with other large financial institutions. As part of their processes to guarantee or

[23] Financial Stability Oversight Council, *2020 Annual Report* at 179-180 (Dec. 3, 2020).

purchase mortgage loans, the Enterprises receive, store, and transmit significant information about borrowers, including financial data and personally identifiable information. Both the Enterprises and the FHLBanks have been the targets of cyber attacks.

FHFA recognizes that its regulated entities face significant operational risk from information security and cybersecurity threats. The Agency has cited this as an area of critical importance due to the Enterprises' concentration of borrower information and their market importance. Further, FHFA has acknowledged that several FHLBanks have issues with vulnerability management, cloud computing, and other information technology (IT) matters. As cyber threats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing its examination activities for the entities it supervises. These supervisory activities may be made increasingly difficult by FHFA's continuing need to attract and retain highly qualified technical personnel, with expertise and experience sufficient to handle rapid developments in technology.

Over the past few years, cyber attacks against federal agencies also have increased in frequency and severity. FHFA has computer networks that are part of the nation's critical financial infrastructure, and FHFA is required to design information security programs to protect them. Computer networks maintained by federal government agencies have been proven to be a tempting target for disgruntled employees, hackers, and other intruders. FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and confirming that its third-party providers meet information security program requirements. As cyber attacks evolve and become more sophisticated and harder to detect, they pose an ongoing challenge for virtually every federal agency to fortify and safeguard its internal systems and operations.

For example, in March 2020, hackers inserted malicious code into SolarWinds' network management software that allowed them to breach the IT systems of users of that software, including the Departments of the Treasury, Commerce, and Homeland Security. This highly sophisticated attack was not detected until December 2020.

Our oversight activities this year, including the annual audit performed pursuant to the Federal Information Security Modernization Act of 2014 and an audit of FHFA's privacy program, are intended to ensure FHFA's compliance with information security program and privacy protection standards and assist FHFA in strengthening protections over its information and network operations against those who would seek to attack its network. Our oversight is also intended to assist FHFA in its supervision of cybersecurity risk management by the entities it regulates.

Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including risks related to information security, business continuity, and other safety and soundness issues. As FSOC has cautioned:

> Financial institutions are increasing their use of third-party service providers to supplement or increase their capabilities…. While the use of third-party service providers can have advantages, it can also introduce risk…. The reliance of many institutions on a single vendor creates concentration risk, as a service interruption or cyber event at that vendor could result in widespread disruption in access to financial data and could impair the flow of financial transactions.[24]

There also is risk that a counterparty will not meet its contractual obligations. FSOC has noted, "[n]onbank mortgage companies play a significant role in the housing finance system" and "While the[ir] business models…vary, many are subject to certain fragilities, such as a heavy reliance on short-term funding, obligations to continue to make servicing advances for certain delinquent borrowers, and limited resources to absorb adverse economic shocks…. An increase in forbearance and default rates has the potential to impose significant strains on nonbank servicers."[25]

Another risk is that a counterparty will engage in fraudulent conduct. FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its supervisory activities. Our publicly reportable criminal investigations illustrate that the risk of fraudulent conduct by counterparties and third parties is both real and multifaceted.

In light of the financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, our efforts are intended to enhance FHFA's oversight of the Enterprises' management of risks related to their counterparties.

Sustain and Strengthen Internal Controls Over Agency Operations (Management Concern)

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates the development and implementation of, and compliance with, effective internal controls within the Agency.

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[24] *Id.* at 127-128.

[25] *Id.* at 5 and 169.

According to the Office of Personnel Management, workforce planning serves as the foundation for managing an organization's human capital. Similarly, the Government Accountability Office recognizes, in its *Standards for Internal Control in the Federal Government*, that "effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible."

We reported in February 2020 that FHFA had not engaged in a systematic workforce planning process for DER for a seven-year period, notwithstanding its prior commitments to do so. In response, FHFA described actions taken in conjunction with the realignment of the Agency's structure announced in January 2020. As discussed previously, FHFA engaged a contractor in May 2020 to prepare "an organizational optimization Blueprint, including a human capital management plan, to cement FHFA's position as a world-class regulatory agency and to ensure the agency has the optimal organizational framework to carry out its supervisory mission in a post-conservatorship environment." FHFA's projected dates for deliverables from that project have slipped. As we cautioned FHFA previously, remediating deficiencies identified by us and by FHFA before the Enterprises are released from conservatorship will demand disciplined project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines. The lack of disciplined project management increases the risk that the necessary remediation will not occur in a timely manner.

Our work demonstrates that FHFA is challenged to ensure that its existing controls, including its written policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

Our oversight will continue to include reviews of FHFA's internal operations that are important to achieving its mission.

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