

Federal Housing Finance Agency  
Office of Inspector General



# **FHFA Performed Active Oversight and Made Efforts to Ensure Fannie Mae's Compliance with Its Directions to Improve Audit Committee Operations**

This report contains redactions of information that is privileged or otherwise protected from disclosure under applicable law.

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## Executive Summary

FHFA has called corporate audit committees “an integral component of an organization’s governance framework” and views such committees “as having a significant role in establishing and communicating the company’s priorities, values, and standards.” Fannie Mae’s Audit Committee (Committee) has multiple responsibilities, including overseeing the Chief Audit Executive (CAE)’s qualifications, independence, and performance.

In a 2015 evaluation report, we assessed FHFA’s oversight of Fannie Mae’s appointment of its CAE in October 2013. We found several deficiencies with the process by which the Committee selected the CAE. For example, we found no corporate record of any Committee meetings regarding the CAE position selection before it was announced, nor did the Committee create contemporaneous records of its deliberations explaining how it made the selection, including how it addressed the candidate’s potential conflicts of interest. We made several recommendations to address these deficiencies.

In response to two of our recommendations, FHFA issued a Supervisory Direction (SD) to Fannie Mae’s Audit Committee Chairman to document appropriately the Committee’s discussions, deliberations, and actions at each meeting; prioritize key issues and risks in meeting agendas; and provide standard reports and informational materials to the Committee in advance of the meetings. We closed the two recommendations on October 29, 2015, based on the SD’s issuance.

We initiated this compliance review to assess whether the Agency ensured Fannie Mae’s compliance with the SD from January 1, 2016, through February 28, 2023 (the review period). We found that FHFA performed active oversight and made efforts to ensure Fannie Mae’s compliance with the SD.

This report was prepared by Karen Van Horn, Senior Investigative Counsel, with the assistance of Kristopher Brash Dixon, Program Analyst. 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.fhfaoig.gov](http://www.fhfaoig.gov).

/s/

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## ABBREVIATIONS .....

Agency or FHFA	Federal Housing Finance Agency
CAE	Chief Audit Executive
Committee	Fannie Mae Audit Committee
MRA	Matter Requiring Attention
OIG	FHFA Office of Inspector General
Review Period	January 1, 2016 – February 28, 2023
SD	Supervisory Direction issued by FHFA to the Fannie Mae Audit Committee Chair dated May 28, 2015

## BACKGROUND.....

### Fannie Mae’s Audit Committee

FHFA has called corporate audit committees “an integral component of an organization’s governance framework.” The Agency views such committees “as having a significant role in establishing and communicating the company’s priorities, values, and standards.” According to its charter, Fannie Mae’s Audit Committee has multiple responsibilities, including but not limited to overseeing:

- (a) The accounting, reporting, and financial practices of [Fannie Mae] and its subsidiaries, including the integrity of the Enterprise’s financial statements and internal control over financial reporting,
- (b) [Fannie Mae]’s compliance with legal and regulatory requirements,
- (c) The external auditor’s qualifications, independence, and performance, and
- (d) The qualifications, independence, and performance of [Fannie Mae]’s internal audit function and chief audit executive.

### Our 2015 Evaluation Identified Several Deficiencies in Fannie Mae’s Selection and Appointment Process for a New Chief Audit Executive

In 2012, FHFA delegated to Fannie Mae and Freddie Mac the authority to hire executive officers. In 2015, we evaluated FHFA’s oversight of Fannie Mae’s 2013 hiring of its CAE. We found several deficiencies in the process by which the Committee selected the CAE. Among other deficiencies, we found that the Committee:

- Did not enter in the corporate record any meeting of the Committee pertaining to the CAE selection before it was announced; and
- Did not create contemporaneous records of the Committee’s deliberations explaining how it made the selection, including how it addressed the candidate’s potential conflicts of interest.

The evaluation made several recommendations, two of which are relevant to this compliance review. First, “[g]iven the importance of the [Committee]’s oversight over Fannie Mae’s financial reporting and risk management and the breadth of its responsibilities,” we recommended that FHFA “require the [Committee] to hold meetings relating to its oversight responsibilities and to fully document, in meeting minutes, its discussions, deliberations, and

actions at each meeting[.]” The recommendation’s purpose was “to ensure an effective flow of information among directors, senior management, and risk managers and to satisfy FHFA of the adequacy of the Committee’s risk oversight function.” We also recommended that FHFA “[d]irect the [Committee] to align its meetings to address priority issues and risks so that standard reports and informational materials are provided to the Committee in advance of the meetings and may not need to be included on the meeting agenda for discussion[.]” This recommendation was intended to ensure “that the Committee has sufficient time at each meeting to enable it to focus on the most critical issues and risks.”

### **FHFA’s Corrective Actions**

FHFA accepted both of these recommendations. As part of its corrective actions, the Agency committed to “communicate in writing to Fannie Mae its expectation for enhancements to [Committee] processes, in particular, regarding meetings, documentation of proceedings and submission of reports and other materials to the [Committee].”

On May 28, 2015, FHFA issued the SD to the Committee Chairman, stating

FHFA’s supervisory expectation that [the Committee] will appropriately document its discussions, deliberations, and actions at each meeting. To the extent that it is not already occurring, the [Committee] must ensure its meeting agendas prioritize key issues and risks. Standard reports and informational materials should be provided to the Committee in advance of the meetings to help ensure that the [Committee] has sufficient time at each meeting to enable it to focus on the most critical issues and risks.

Based on the SD’s issuance, we closed the two recommendations on October 29, 2015.

## **FINDINGS .....**

We initiated this compliance review to assess whether, during the review period, the Agency ensured Fannie Mae’s compliance with the SD’s directions that: (1) the Committee appropriately document its meeting discussions, deliberations, and actions; (2) key issues and risks be prioritized on Committee meeting agendas; and (3) standard reports and informational materials must be provided to the Committee in advance of meetings. To make these assessments, we reviewed agendas, meeting minutes, and documentation regarding meeting materials for 59 Committee meetings that occurred during the review period. As

detailed below, we found that FHFA engaged in active oversight of the Committee’s activities and made efforts to ensure that Fannie Mae complied with the SD.<sup>1</sup>

## **FHFA Engaged in Active Oversight of the Committee**

We determined that FHFA performed an ongoing monitoring activity in 2017 directly related to Fannie Mae’s implementation of and adherence to the SD. FHFA found that Fannie Mae generally complied with the SD.

In 2021, FHFA conducted a subsequent targeted examination and found deficiencies related to Fannie Mae’s [REDACTED]

[REDACTED].<sup>2</sup> To address these deficiencies, FHFA notified Fannie Mae of a Matter Requiring Attention (MRA),<sup>3</sup> in response to which Fannie Mae committed to “[REDACTED].” On January 25, 2023, FHFA concluded that Fannie Mae’s implementation of corrective actions was satisfactory and closed the MRA.

## **The Committee Documented Its Meeting Discussions, Deliberations, and Actions**

### ***All Committee Meeting Minutes Reflected Action Items, Discussions, and Deliberations and Were Approved by the Committee***

We reviewed the agendas provided for 59 Committee meetings to identify whether they reflected items requiring Committee action. We then reviewed the corresponding minutes from those meetings to determine whether the action items were addressed and documented. Our analysis determined that action items and corresponding discussions and deliberations were documented in the meeting minutes in all 59 (100%) of the Committee meetings we considered from the review period.

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<sup>1</sup> FHFA officials told us that the SD remains in effect and has not been supplemented. FHFA also said they have not provided any training or guidance to Fannie Mae regarding the SD since its issuance.

<sup>2</sup> The deficiencies identified by FHFA’s targeted exam included matters such as maintaining a [REDACTED]. In two instances, the Agency identified shortcomings in [REDACTED]. Given FHFA’s conclusion that the Enterprise’s corrective actions were satisfactory, and given the narrower scope of OIG’s testing, FHFA’s finding of deficiencies as to those issues is not inconsistent with OIG’s findings.

<sup>3</sup> MRAs are critical supervisory matters of the highest priority which pose substantial risk to the safety and soundness of the Enterprise or deficiencies which 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 Enterprise.

In addition, we reviewed the minutes of the above-referenced 59 Committee meetings, as well as other records, to determine whether the Committee approved minutes from each of those meetings. Our analysis determined that the Committee approved meeting minutes for all 59 meetings (100%).

### **Nearly All Committee Meeting Agendas Prioritized Key Issues and Risks**

The SD directs the Committee to ensure that its meeting agendas prioritize key issues and risks. As mentioned previously, FHFA performed ongoing monitoring of Fannie Mae’s compliance with the SD. During this ongoing monitoring, FHFA reviewed a sample of Committee meeting agendas to determine whether the agendas prioritized key issues and risks. Based, in part, on its observation that “each agenda highlights which items are actionable by the Committee,” FHFA concluded that Fannie Mae appeared to prioritize items appropriately.

As noted above, we reviewed agendas for 59 meetings held during our review period. We observed that prioritized items were designated on the agendas with the bold-printed notation “(Action).” Based on our review, we determined that key issues and risks were prioritized in the agendas for 54 of 59 (92%) Committee meetings in a manner consistent with FHFA’s expectations.

### **Meeting Materials Were Provided to Committee Members in Advance of Most Meetings**

The SD directs that standard reports and informational materials be provided to the Committee in advance of meetings to help ensure that it has sufficient time at each meeting to focus on the most critical issues and risks. We requested documentation reflecting when meeting materials<sup>4</sup> were provided to Committee members for the 59 meetings.

Fannie Mae stated that it seeks to distribute materials to Committee members at least one week in advance of each meeting and that distribution occurs by uploading the materials onto an electronic “materials distribution platform.” To demonstrate the distribution of the meeting materials to Committee members, Fannie Mae produced copies of email notifications sent to Committee members notifying them that meeting materials had been uploaded to the platform. For 16 of the 59 Committee meetings tested – consisting of meetings occurring at least five years prior to this compliance review – Fannie Mae stated it was unable to provide such email notifications, because those emails had been discarded in accordance with the Enterprise’s five-year email retention requirement. However, Fannie Mae provided email

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<sup>4</sup> Meeting materials provided to the Committee varied, but the agendas generally reflect that they included minutes of prior meetings for approval; proposed policy, plan or charter amendments; personnel actions; and reports from the CAE.



notifications for 41 of the remaining 43 meetings. We determined that for 36 of the 43 meetings, the email notifications showed that materials were provided five days or more in advance of the meeting (84%). For five meetings, the materials were provided fewer than five days in advance of the meeting (11%). Fannie Mae did not produce any email notifications regarding two of the 43 meetings. These exceptions notwithstanding, Fannie Mae took steps to ensure that board members were prepared for substantially all meetings during the review period.

## CONCLUSIONS .....

FHFA performed active oversight and made efforts to ensure Fannie Mae’s compliance with its SD:

- FHFA conducted ongoing monitoring and performed a targeted examination in its efforts to ensure Fannie Mae’s implementation of and adherence to the SD.
- All of the tested Committee meeting minutes reflected action items, discussion, and deliberations, and were approved by the Committee.
- 92 percent of tested Committee meeting agendas prioritized key issues and risks.
- For the meeting materials reviewed, Fannie Mae provided meeting materials to Committee members at least five days before meetings 84 percent of the time and less than five days in advance 11 percent of the time.

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

We initiated this compliance review in April 2023 to assess whether, during the review period, the Agency ensured Fannie Mae’s compliance with the SD’s directions that: (1) the Committee appropriately document its meeting discussions, deliberations, and actions; (2) key issues and risks be prioritized on Committee meeting agendas; and (3) standard reports and informational materials must be provided to the Committee in advance of meetings. To accomplish these objectives, we reviewed relevant Agency and Enterprise documentation. We also interviewed Agency officials from pertinent offices, including but not limited to FHFA’s Division of Enterprise Regulation and its Division of Conservatorship Oversight and Readiness.

We conducted our compliance review from April 2023 through June 2023 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (December 2020), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency. We provided a draft of this report to FHFA for its review and comment.

## ADDITIONAL INFORMATION AND COPIES.....

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