Federal Housing Finance Agency
Office of Inspector General
FHFA OIG

ANNUAL PLAN

Fiscal Year 2022

Foreword

This annual plan outlines the fiscal year 2022 Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) priorities. Our oversight efforts will focus on the four management and performance challenges and a management concern identified by the FHFA Acting Inspector General in a memorandum to the FHFA Acting Director, dated October 15, 2021:

- Challenge: Upgrade Supervision of the Enterprises and Continue Supervision Efforts of the Federal Home Loan Banks (FHLBanks) – Supervision of the Regulated Entities
- Challenge: Improve Oversight of Conservator Operations – Conservator Operations
- Challenge: Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA – Information Security
- Challenge: Enhance Oversight of the Enterprises' Management of Counterparty and Third-Party Risk – Counterparties and Third Parties
- Management Concern: Sustain and Strengthen Internal Controls over Agency Operations, Including Workforce Planning – Internal Control over Agency Operations

We continually monitor events potentially impacting FHFA and housing finance, including the COVID-19 pandemic, and may undertake specific work at the request of FHFA management, the Congress, or other stakeholders. Because of these reasons, other unforeseen events, and shifting priorities, this plan is subject to change (e.g., new work added, planned work deferred, etc.) during the fiscal year.

The planned work described in this document addresses areas of known and emerging risk and vulnerabilities. We encourage FHFA management to use this plan for areas of self-assessment as appropriate.

November 2021

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Abbreviations

AB	Advisory Bulletin
AHP	Affordable Housing Program
Blue Book	CIGIE, *Quality Standards for Inspection and Evaluation*
BOD	Binding Operational Directive
CDC	Centers for Disease Control and Prevention
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
CICA	Community Investment Cash Advance
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIP	Community Investment Program
CSS	Common Securitization Solutions, LLC
D&I	Diversity and Inclusion
DAFS	Division of Accounting and Financial Standards
DCOR	Division of Conservatorship Oversight and Readiness
DER	Division of Enterprise Regulation
DHS	Department of Homeland Security
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EEO	Equal Employment Opportunity
Enterprises	Fannie Mae and Freddie Mac
EO	Executive Order
Fannie Mae	Federal National Mortgage Association
FedRAMP	Federal Risk and Authorization Management Program

FHFA or Agency	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FISMA	Federal Information Security Modernization Act of 2014
Freddie Mac	Federal Home Loan Mortgage Corporation
FSOC	Financial Stability Oversight Council
GAO	Government Accountability Office
Green Book	*Standards for Internal Control in the Federal Government*
HERA	Housing and Economic Recovery Act of 2008
HFE	Housing Finance Examiner
IG Act	Inspector General Act of 1978, as amended
MRA	Matter Requiring Attention
NIST	National Institute of Standards and Technology
NPL	non-performing loan
OA	Office of Audits
OAd	Office of Administration
OC	Office of Counsel
OCA	Office of the Chief Accountant
OCom	Office of Compliance and Special Projects
OCOO	Office of the Chief Operating Officer
OE	Office of Evaluations
OESO	Office of Enterprise Supervision Oversight
OFA	Office of Financial Analysis
OGE	Office of Government Ethics

OI	Office of Investigations
OICF	Office of Internal Controls and Facilities
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
ORA	Office of Risk Analysis
ORP	Office of Risk and Policy
PIIA	Payment Integrity Information Act of 2019
Regulated Entities	Fannie Mae; Freddie Mac; Common Securitization Solutions, LLC; and the Federal Home Loan Banks
RFI	request for input
ROE	Report of Examination
SEC	Securities and Exchange Commission
SP	Special Publication
SPE	Senior Procurement Executive

Overview

Background

FHFA was established by the Housing and Economic Recovery Act of 2008 (HERA).[1] The Agency is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae); the Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the Enterprises); Common Securitization Solutions, LLC (CSS), an entity-affiliated party of the Enterprises; and the Federal Home Loan Bank System – which includes 11 Federal Home Loan Banks (FHLBanks) and the Office of Finance, a joint office of the FHLBanks. FHFA's mission is to ensure that Fannie Mae, Freddie Mac, the FHLBanks (collectively, the regulated entities), and any entity-affiliated party operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment through the economic cycle. Since September 2008, FHFA has also been the Enterprises' conservator.

The Enterprises purchase mortgages from lenders and either package them into mortgage-backed securities that are sold to investors or hold them in their respective portfolios. By doing so, the Enterprises 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.

In response to the COVID-19 pandemic, FHFA has taken steps to support the secondary mortgage market and provide relief to borrowers, including authorizing the Enterprises to provide additional liquidity and loan processing flexibilities and directing them to suspend foreclosures and evictions.

Our Mission

Also established by HERA, OIG promotes economy, efficiency, effectiveness, ethics, and equity 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, efficiency, and equity. We 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.

Additionally, as the FHFA Inspector General is a statutory member of the Council of Inspectors General on Financial Oversight (CIGFO), we may lead, co-lead, and/or participate in CIGFO-

[1] Public Law 110-289.

convened working groups to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council (FSOC).[2]

OIG Offices

Office of Audits (OA)

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, as amended (IG Act), 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 or the Yellow Book. OA also oversees independent public accounting firms that perform certain audits of FHFA programs and operations.

Office of Evaluations (OE)

OE conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the IG Act, 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*, commonly referred to as the Blue Book.

Office of Compliance and Special Projects (OCom)

OCom is tasked 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. OCom's validation testing is performed in accordance with the Blue Book and the results published as compliance reviews.

In addition, OCom undertakes special projects, which can include reviews arising from hotline complaints alleging non-criminal matters.

[2] *See* Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. No. 111-203), Section 989E, Additional Oversight of the Financial Regulatory System.

Office of Investigations (OI)

OI investigates allegations of significant criminal, civil, and administrative wrongdoing that affect FHFA and its regulated entities. OI's investigations are conducted in accordance with professional guidelines established by the Attorney General of the United States and CIGIE's *Quality Standards for Investigations*. OI is staffed with special agents, investigative counsel, analysts, and attorney advisors who work in Washington, D.C., and field offices across the nation. OI also manages the OIG Hotline. OI works in partnership with prosecutors and law enforcement agencies throughout the country to effectively carry out our mission. In addition, OI is an active participant in the Department of Justice's COVID-19 Fraud Enforcement Task Force as well as the CIGIE Pandemic Response Accountability Committee.

In fiscal year 2022, OI will initiate and continue:

- Investigations concerning allegations of fraud, waste, and abuse in the programs and operations of FHFA and its regulated entities
- Investigations of fraud related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act and other pandemic relief legislation as appropriate
- Partnerships with FHFA and the regulated entities to investigate significant cyber-criminal activity
- Investigations of allegations of employee misconduct, including whistleblower complaints

Office of Chief Counsel (OC)

OC serves as the chief legal advisor to OIG and provides independent legal advice, counseling, and opinions about its programs and operations. It supports audits, evaluations, compliance reviews, special projects, investigations, and risk assessments by ensuring that each OIG published report is legally sufficient, factually supported, and is in compliance with OIG's policies, procedures, and relevant guidance. Additionally, OC serves as OIG's designated ethics office; reviews drafts of FHFA regulations and policies and prepares comments as appropriate; manages OIG's Freedom of Information Act and Privacy Act programs; and reviews, edits, and facilitates the issuance and enforcement of OIG subpoenas. OC also provides coordination and support for whistleblowers by serving as OIG's Whistleblower Protection Coordinator and advises OIG staff on hotline inquiries. OC represents OIG in administrative and equal employment opportunity (EEO) matters and coordinates closely with the Department of Justice to defend OIG in civil litigation.

Office of Risk Analysis (ORA)

ORA enhances OIG's ability to focus our resources on the areas of greatest risk to FHFA and its regulated entities. ORA is tasked with monitoring, analyzing, and disseminating information on emerging and ongoing risks. Through its work, it contributes data and information to assist offices across OIG and issues white papers discussing areas of potential emerging and ongoing risks.

Office of Administration (OAd)

OAd provides management and oversight of OIG's administrative functions, including financial management, information technology, human resources, and procurement and contract services. Within OAd, Budget and Financial Management oversees and administers the financial management and budget functions for OIG and coordinates the annual Government Accountability Office (GAO) audit of the OIG financial statements. This office reviews, prepares, and approves agency monthly and annual financial reports, and oversees all aspects of budgeting, financial forecasting, and cash flow for the organization. OAd's Human Resource Management offers an array of human resource services, including performance management, employee relations, compensation and benefits, work/life offerings, and awards and recognition. OAd's Information Technology manages OIG systems, networks, and telecommunications services, working within the framework established by the Office of Management and Budget (OMB) and the National Institute of Standards and Technology (NIST) to ensure compliance with government regulations, guidance, and industry best practice. OAd's Procurement office works closely with all OIG components to assist and coordinate the procurement of goods and services.

Office of Internal Controls and Facilities (OICF)

OICF provides management and oversight of OIG's internal controls (OMB Circular A-123 and GAO's *Standards for Internal Control in the Federal Government* (Green Book)) program and components of OIG's organizational support functions. The internal controls program includes financial and programmatic internal controls annual planning, risk assessments, testing, reporting, and attestations, and leadership of the Executive Committee on Internal Controls. Organizational support functions include acquisition, construction, outfitting, and maintenance of leased commercial and government-owned office space, including floor plans, office space assignments, and parking; official government travel and travel credit cards; government-issued fleet vehicles and fleet credit cards; commuting mass transit benefits and parking; identification credentials and personal identity verification cards for logical and physical access control; emergency preparedness and continuity of operations planning; and annual 100 percent inventory of accountable property.

Fiscal Year 2022 Planned Audits, Evaluations, and Other Projects

Risk Area: Supervision of the Regulated Entities

Background

As HERA recognizes, FHFA's supervision of the Enterprises is of paramount importance to their safe and sound operation. History has shown that a precipitous decline in the Enterprises' safety and soundness contributed to a severe crisis in the national economy and required nearly $200 billion in taxpayer support to keep them afloat. For these reasons, we have deemed FHFA's supervision of the Enterprises – via the Agency's Division of Enterprise Regulation (DER) – to be one of four critical risks on which we have focused our oversight efforts. Since October 2014, we have issued more than 50 reports on FHFA's supervision program for the Enterprises. Forty (40) of these reports, taken collectively, detailed chronic and pervasive deficiencies in the supervision program itself, as well as in its execution.

In-Progress Audit

- **FHFA's Review of the Enterprises' Draft Securities and Exchange Commission (SEC) Filings.** FHFA's Division of Accounting and Financial Standards (DAFS) mission is to promote the safety and soundness of the regulated entities and competitive, liquid, efficient, and resilient mortgage markets through oversight and the regulated entities' adherence to financial standards and to support transparency and accountability of FHFA's supervision and regulation. Within DAFS, the Office of the Chief Accountant (OCA) leads the quarterly review of Fannie Mae's and Freddie Mac's draft SEC filing documents. Specifically, one of OCA's principal responsibilities and functions is to review the Enterprises' public financial reports to evaluate the quality of disclosures in light of applicable accounting standards and to assess whether they materially comply with FHFA, and, where applicable, the SEC's rules and regulations.

  The audit objective is to determine if FHFA followed its guidance when reviewing the Enterprises' draft SEC filings.

In-Progress Evaluation

- **FHFA's Quality Control Review Process for Enterprise Examinations**. In a 2015 evaluation, we found that DER had not established or implemented a quality control review process for its targeted examinations as required by FHFA since March 2013. FHFA has since updated its quality control guidance with Supervision Directive 2017-01, *Quality Control Program*, which sets forth the general requirements for identifying significant deviations from FHFA examination standards and supervision policy.

We are conducting a follow-up evaluation to determine how the applicable examination standards are identified for quality control reviews, how the results of the quality control reviews are utilized, and whether DER's quality control program is effective in achieving greater consistency and improved examination practices.

In-Progress Compliance Review and Special Projects

- **Fannie Mae's Implementation of FHFA's Data Collection Requirements for the Non-Performing Loans (NPLs) Sales Program.** In 2015, FHFA authorized the Enterprises to sell NPLs to reduce the number of delinquent loans held in their retained portfolios and to transfer credit risk to the private sector. FHFA established multiple NPL program sales requirements, including but not limited to post-sale reporting by NPL buyers to the Enterprises for a four-year period regarding borrower outcomes. Our 2017 audit found the Enterprises were not collecting from NPL buyers all information necessary to determine buyer/servicer compliance with FHFA's requirements. We recommended that FHFA determine the information necessary to ensure NPL program requirements are being met and to update the reporting standards accordingly. In response, FHFA required the Enterprises to collect four additional data fields from NPL buyers. On May 25, 2018, we closed the recommendation based on this corrective action.

  In February 2020, we issued a compliance review that found Freddie Mac had implemented the NPL data collection requirements, but Fannie Mae had not. Fannie Mae provided us with its proposed plan to collect the data starting in 2020. The 2020 compliance review stated that OIG "will revisit this matter after an appropriate interval to determine whether Fannie Mae has honored its commitment to collect the required data fields."

  To that end, this compliance review is assessing whether, during a specific review period, Fannie Mae collected the required NPL data as it committed to do.

- **Status Report on FHFA's Housing Finance Examiner Commissioning (HFE) Program.** Congress virtually duplicated the examination regime applicable to federally regulated banks when it designed the examination regime for the Enterprises and FHLBanks. However, we found in 2011 that the large proportion of FHFA's examiners without commissions—as well as its lack of an examiner commissioning program—made FHFA an outlier among the federal financial regulators. In response to our 2011 report, the Agency developed its HFE Program, which is comprised of classroom courses, on-the-job training, and a final examination.

  Since our inaugural report, we have issued additional reports on the status of the HFE Program. In our most recent report (September 2018), we found continued multiple failures in the Agency's administration of the HFE Program. We held open our 2015 recommendation based on the DER Associate Director's promise to look at the HFE Program "fresh" and issue guidance with changes to the program.

The objective of this special project is to report on the status of the HFE Program since our 2018 report. Specifically, we will report on FHFA/DER's 2018 initiative to "look at the HFE Program fresh," together with any changes made to the Program stemming from the initiative, and the result of any such changes. We will also report upon whether the Program is currently producing commissioned examiners adequate to fulfill needs identified by the Agency within approximately four years.

- **Administrative Inquiry into the Agency's Oversight of the Enterprises' Capacity to Meet the Costs of COVID-19 Mortgage Forbearance.** In September 2020, six months after the beginning of the COVID-19 pandemic, the then-FHFA Director estimated that the overall costs of forbearance to the Enterprises—including expenses and fees, losses from the federal moratorium on foreclosures, and anticipated loan losses from defaults—would be "roughly $6 billion."

  The objective of this special project is to report on the Agency's oversight of the Enterprises' response to the COVID-19 pandemic, as well as the Agency's assessment as to the anticipated costs of that response. We will review steps taken by the Agency and Enterprises to prepare for those costs and report on the Agency's assessment of the Enterprises' capacity to absorb them.

Planned Fiscal Year 2022 Audits

- **FHFA's Efforts to Integrate Consideration of Climate-Related Risk in its Policies and Programs.** On May 20, 2021, the President issued an Executive Order (EO) 14030, Executive Order on Climate-Related Financial Risk, that established the Administration's policy to: advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk, including both physical and transition risks; act to mitigate that risk and its drivers, while accounting for and addressing disparate impacts on disadvantaged communities and communities of color and spurring the creation of well-paying jobs; and achieve a target of a net-zero emissions economy by no later than 2050. The EO also instructed that FSOC, of which FHFA is a member, consider reporting by November 2021 on any efforts by FSOC member agencies to integrate consideration of climate-related financial risk in their policies and programs.[3] Prior to this EO, on January 19, 2021, FHFA issued a Request for Input (RFI) on the current and future natural disaster risk to the housing finance system and to Fannie Mae, Freddie Mac, and

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[3] In response, on October 21, 2021, FSOC released its *Report on Climate-Related Financial Risk*. That report includes recommendations that FSOC and its members can adopt to strengthen the financial system and make it more resilient to climate-related shocks and vulnerabilities.

the FHLBanks to "enhance the Agency's ability to fulfill its statutory mission to ensure that the regulated entities operate in a safe and sound manner." The Agency received 57 comments in response.

We plan to determine and report on what actions FHFA has taken to integrate consideration of climate-related risk into its policies and programs and whether those actions are consistent with the policy, objectives, and directives set forth in the EO.

- **Review of FSOC's and Its Member Agencies' Response to the Executive Order on Climate-Related Financial Risk.**

  We plan to co-lead with the Department of the Treasury OIG, a CIGFO working group review related to EO 14030. The objective of this audit is to determine what actions FSOC has taken, or plans to take, in response to the EO as of November 30, 2021, and whether those actions are consistent with the policy, objectives, and directives set forth in the EO.

- **FHFA's Initiatives Responding to the Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government.** EO 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government, issued in January 2021, focused on the pursuit of a comprehensive approach by the federal government to advance equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality. According to the EO, advancing equity across the federal government can create opportunities for the improvement of communities that have been historically underserved, which benefits everyone. For example, an analysis shows that closing racial gaps in wages, housing credit, lending opportunities, and access to higher education would amount to an additional $5 trillion in gross domestic product in the American economy over the next 5 years. According to FHFA, the Agency is not required, but may voluntarily choose, to incorporate the EO's mandates into its policies and operations, and has initiated several initiatives that are consistent with the objectives of the EO.

  We plan to determine what initiatives FHFA has taken in response to the EO and the extent to which those initiatives are achieving their purpose.

- **DER's Development and Implementation of Office Plans for the 2022 Supervisory Cycle.** Separate from the annual examination plans developed for each Enterprise, DER's supervisory planning process for the 2022 supervisory cycle includes the development of Office Plans for the division's Office of Risk and Policy (ORP), Office of Financial Analysis (OFA), and Office of Enterprise Supervision Oversight (OESO) to guide its key supervisory activities for the year. The Office Plans are to identify the supervisory activities that will be undertaken to execute DER's supervisory strategy for the year, the core supervisory activities of each office, and DER's supervisory priorities.

We plan to determine whether DER developed and implemented its Office Plans for ORP, OFA, and OESO in accordance with its requirements.

- **DER's Report of Examination for CSS.** According to the 2020 CSS Supervision Framework memorandum, DER will begin issuing an annual Report of Examination (ROE) for CSS at the end of the 2020 examination cycle – the ROE was transmitted on March 31, 2021. DER's guidance on ROEs sets forth the format and procedures for the drafting and clearance of the annual ROE, its delivery to CSS by DER, and the expectations for CSS' response.

  We plan to determine whether FHFA prepared and issued its ROE covering the 2020 supervisory cycle for CSS in accordance with its guidance.

- **FHFA Examinations of the FHLBanks' Affordable Housing Programs.** The Federal Home Loan Bank Act requires each FHLBank to establish an Affordable Housing Program (AHP) to fund the purchase, construction, or rehabilitation of affordable housing for very low- and low- or moderate-income households. In response to these requirements, the FHLBanks initiated two programs: (1) AHP and (2) the Community Investment Program (CIP).

  - AHP encourages lending efforts by FHLBank members supporting homeownership financing programs and the availability of rental housing for low- to moderate-income applicants. FHLBank members can access these subsidies through the AHP Competitive Application Program and the AHP Homeownership Set-aside Program. In 2020, the FHLBanks made more than $362 million in AHP subsidies available nationwide. From 1990, when the AHP funds were first awarded, through 2020, the FHLBanks have awarded more than $7 billion in AHP subsidies and assisted over 990,000 households.

  - CIP and the Community Investment Cash Advance (CICA) Program also support the FHLBanks core mission by providing advances to members to assist the financing of housing or other economic development initiatives to benefit low- and moderate-income households and neighborhoods. During 2020, the FHLBanks issued approximately $2.9 billion in CIP advances for housing projects and approximately $43.8 million for economic development projects. Also during 2020, the FHLBanks issued approximately $3.6 billion in CICA advances for community development projects such as commercial, industrial, and manufacturing projects, social services, and public facilities.

We plan to determine whether the Division of Federal Home Loan Bank Regulation has followed its guidance for examinations of FHLBanks' AHPs as separate audits of:

- The AHP Competitive Application Program and the AHP Homeownership Set-Aside Program
- The CIP and CICA Program

Planned Fiscal Year 2022 Evaluations

- **FHFA's Efforts to Identify and Address Potential Appraisal Bias and Valuation Disparities.** In its Strategic Plan for 2021-24 (dated September 16, 2020), FHFA adopted a strategic goal to foster competitive, liquid, efficient, and resilient housing finance markets (Strategic Goal 2) and identified two means for achieving this goal and the related objective: monitoring and promoting compliance with fair lending laws and promoting financial inclusion and economic opportunity through fair access for, and fair treatment of, mortgage borrowers. Approximately three weeks after issuing its 2021-24 Strategic Plan, FHFA issued an RFI that covered, among other things, "valuation differences by borrower and neighborhood ethnic makeup." The RFI states, in pertinent part, "To better understand the potential for differences in appraised values based on ethnicity or race, FHFA is seeking input on the extent of disparities in value determinations for minority borrowers and for minority neighborhoods."

  We plan to review the results of FHFA's effort to identify potential appraisal bias and valuation disparities based on ethnicity or race, and any steps FHFA has taken or plans to take to revise the Enterprises' respective underwriting requirements for appraisals to address any such bias or disparities.

- **FHFA's Review and Approval of Alternative Credit Score Models.** Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 established new requirements for the validation and approval of third-party credit score models used by the Enterprises. FHFA promulgated a final rule in 2019 (effective date October 15, 2019) that established a four-phase process for obtaining approval of new credit scoring models. The regulation (12 C.F.R. Part 1254) calls for FHFA to review and approve the initial solicitation that the Enterprises issue. An Enterprise also must submit any proposed determination on a credit score model to FHFA for review and approval. This law, and FHFA's role in such an approval process, are a paradigm shift for the industry with significant ramifications for the Enterprises.

  We plan to determine whether FHFA is meeting its statutory and regulatory duties and responsibilities to review and approve alternative credit score models used by the Enterprises.

Planned Fiscal Year 2022 Compliance Review and Special Project

- **Enterprise Fraud Reporting.** HERA requires the Enterprises to establish and maintain procedures designed to discover and report instances of fraud and possible fraud. In 2010, FHFA promulgated a regulation to meet these requirements. This regulation requires each Enterprise to report to FHFA instances of fraud and possible fraud relating to the purchase or sale of loans or financial instruments. Also, FHFA Advisory Bulletin (AB) 2015-02, *Enterprise Fraud Reporting*, directs the Enterprises to submit monthly and quarterly fraud status reports. FHFA provided standardized templates for the Enterprises to use for these fraud status reports.

  Our 2018 evaluation found that FHFA did not make documented, systematic use of the Enterprises' fraud reports. We recommended that "FHFA re-evaluate the fraud information it requires from the Enterprises and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises." FHFA agreed with our recommendation, and in 2019 it issued AB 2019-04, *Enterprise Fraud Reporting*, plus revised monthly and quarterly fraud status report templates to the Enterprises.

  This compliance review will assess whether, during a specific review period, the Enterprises complied with FHFA's updated reporting requirements and templates.

- **FHFA's Organizational Optimization Blueprint.** As stated above, over the course of the last several years, OIG has drawn attention to chronic and pervasive deficiencies in DER's supervision program and identified a variety of areas within the program that warrant FHFA's attention and action. In Autumn 2020, FHFA's consultant completed an organizational optimization assessment of FHFA and made recommendations to address gaps in FHFA's structure and practices. FHFA adopted a high-level action plan in July 2021 to implement several initiatives that will impact its Enterprise supervision program. As of September 20, 2021, a new deputy director for DER is accountable for achieving FHFA's strategic goal of developing and maintaining a world-class supervision program for the Enterprises.

  OIG previously initiated a special project on FHFA's efforts to develop and maintain a world-class supervision program, including its implementation of the organizational optimization assessment's recommendations and initiatives. That project will resume during the second half of fiscal year 2022 to allow DER's new leadership time to begin implementation of these initiatives.

Planned Fiscal Year 2022 ORA Risk Assessment

- **Enterprise Use of Artificial Intelligence and Machine Learning**. Enterprise models are increasingly using artificial intelligence and machine learning techniques. FHFA expects the Enterprises to establish and maintain formal guidance governing their development and use of models, including those that utilize artificial intelligence and machine learning techniques. Artificial intelligence and machine learning techniques can be complex and introduce additional risk compared to traditional statistical modeling. According to FHFA, risk is heightened in artificial intelligence and machine learning models for certain uses subject to legal and regulatory standards.

  We plan to discuss risks associated with Enterprise use of artificial intelligence and machine learning techniques.

Risk Area: Conservator Operations

Background

As conservator, FHFA is vested with express authority under HERA to operate the Enterprises, including expansive authority over trillions of dollars in assets and billions of dollars in revenue. FHFA also makes business and policy decisions that influence the entire mortgage finance industry. Given the taxpayers' enormous investment in the Enterprises, the conservatorships' unknown duration, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, OIG determined that FHFA's administration of the conservatorships has been, and continues to be, a critical risk.

For reasons of efficiency, concordant goals with the Enterprises, and operational savings, FHFA has delegated authority for general corporate governance and day-to-day matters to the Enterprises' boards of directors and executive management. FHFA, as conservator, delegated to each Enterprise's board of directors a significant portion of day-to-day management and risk controls responsibilities. FHFA's regulations also authorize the boards to delegate execution of day-to-day operations to Enterprise employees. As conservator, FHFA has retained authority to decide specific issues and can, at any time, revoke previously delegated authority. The Agency has developed a process for reviewing and approving matters over which it has retained authority.

In-Progress Evaluation

- **FHFA's Conservatorship Scorecards and Scorecard Progress Reports.** Each year, FHFA publishes a Conservatorship Scorecard that outlines its priorities and expectations for Fannie Mae, Freddie Mac, and their joint venture, CSS, related to its strategic goals as conservator of the Enterprises. FHFA asserts that to "provide further public transparency," it documents these activities in an annual "Scorecard Progress Report."

FHFA has published an annual Conservatorship Scorecard through 2021 but published its last Scorecard Progress Report in 2019 (for 2018 activities).

We are assessing FHFA's policies and practices for (1) establishing scorecard goals and metrics and (2) assessing the Enterprises' and CSS's performance against the scorecard goals.

Planned Fiscal Year 2022 Audit

- **FHFA's Conservatorship Decisions.** Within FHFA, the Division of Conservatorship Oversight and Readiness (DCOR) is responsible for overseeing and facilitating FHFA's conservatorship decision-making process. Specifically, DCOR evaluates Enterprise requests for FHFA conservator approval and matters submitted for conservator notice. DCOR engages in certain monitoring and surveillance on behalf of FHFA as conservator. DCOR's Conservatorship Decision Policy and the related Conservatorship Decision Procedures, as well as the Conservatorship Committee Charter, provide guidance regarding the exercise of conservator authority, the conservator decision-making roles of divisions and offices within FHFA, and related delegated authorities.

  We plan to determine whether FHFA followed its policies and procedures when making conservatorship decisions.

Risk Area: Information Security

Background

FHFA's regulated entities are central components of the U.S. financial system and are interconnected with other large financial institutions. As part of their processes to guarantee or purchase mortgage loans, the Enterprises receive, store, and transmit highly sensitive private information about borrowers, including financial data and personally identifiable information. Both the Enterprises and the FHLBanks have been the targets of cyberattacks.

Cybersecurity is also a pressing concern for the federal government. 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. Over the past few years, cyber attacks against federal agencies have increased in frequency and severity. As cyber attacks continue to evolve and become more sophisticated and harder to detect, they pose an ongoing challenge for virtually every federal agency.

In-Progress Audits

- **FHFA's Information Security Program. [Mandate]** The Federal Information Security Modernization Act of 2014 (FISMA) requires the Inspector General of each agency to annually conduct an independent evaluation of the agency's information security program. Our annual FISMA audits are intended to ensure FHFA's compliance with information security program standards and assist FHFA in strengthening protections over its network operations against those who would seek to attack its network. Our practice is to contract with an independent public accounting firm to conduct the annual evaluation as a performance audit under our oversight.

  We plan to evaluate the effectiveness of FHFA's, including OIG's, information security program and practices and respond to Inspector General FISMA Reporting Metrics issued by the Department of Homeland Security (DHS). (The 2021 FISMA audits were completed in October 2021; the planned start for the 2022 FISMA audit is January 2022.)

- **FHFA's Contingency Planning for Two Systems.** FISMA requires agencies, including FHFA, to develop, document, and implement agency-wide information programs to provide information security for the information and information systems that support the operations and assets of the agency. In addition, FISMA requires agencies to perform periodic testing and evaluation of the effectiveness of information security policies, procedures, and practices. NIST and FHFA guidance define the security requirements that FHFA information systems must have in supporting contingency planning capabilities.

  We plan to determine whether FHFA's oversight of a cloud provider conforms with NIST requirements and FHFA standards. As part of the audit, we plan to test select cloud provider security controls for compliance with requisite FedRAMP requirements.

Planned Fiscal Year 2022 Audits

- **FHFA's Compliance with Select DHS Binding Operational Directives (BOD).** The Cybersecurity and Infrastructure Security Agency at DHS develops and oversees the implementation of Emergency Directives and BODs, which require action on the part of certain federal agencies in the civilian Executive Branch. A BOD is a compulsory direction to federal executive branch departments and agencies for purposes of safeguarding federal information and information systems. For example, BOD 20-01 requires federal agencies to develop and publish a Vulnerability Disclosure Policy, and BOD 19-02 requires agencies' actions for cyber hygiene scanning access and vulnerability remediation for internet-accessible systems.

  We plan to determine whether FHFA complied with select DHS Cybersecurity BODs.

- **Assessment of FedRAMP[4]-Required Security Controls for a Cloud Service Provider.** OMB required that by June 2014, executive branch agencies use FedRAMP for authorizing cloud services. Additionally, OMB required, among other things, that each executive department or agency use FedRAMP when conducting risk assessments, security authorizations, and granting authorization to operate for all executive department or agency use of cloud services.

  FedRAMP developed the Security Controls Baseline for cloud systems to address the unique risks of cloud computing environments, such as multi-tenancy, visibility, control/ responsibility, shared resource pooling, and trust. According to FedRAMP's Security Controls Baseline, federal agencies and cloud service providers must implement these security controls, enhancements, parameters, and requirements within a cloud computing environment to satisfy FedRAMP requirements.

  We plan to determine whether FHFA's oversight of a cloud provider conforms with NIST requirements and FHFA standards. As part of the audit, we plan to test select cloud provider security controls for compliance with requisite FedRAMP requirements.

- **External Penetration Test of FHFA's Network and Systems.** (Note: COVID concerns may affect the timing of this planned audit.) FISMA requires agencies, including FHFA, to develop, document, and implement agency-wide programs to provide information security for the information and information systems that support the operations and assets of the agency, and to periodically test those assets. To support our ongoing oversight of FHFA's implementation of FISMA, we perform audits of networks and information security of the Agency. Our last external penetration test of the Agency was in 2018.

  We plan to determine whether FHFA's security controls were effective to protect its network and systems against external threats. As part of this project, we plan to conduct social engineering tests.

- **FHFA's Implementation of Select NIST Security Controls for a Sample of FISMA-Reportable Systems.** NIST Special Publication (SP) 800-53, Revision 5, *Security and Privacy Controls for Information Systems and Organizations,* dated Sep. 2020, provides a catalog of security and privacy controls for information systems and organizations to

[4] To accelerate the federal government's use of cloud computing, in 2011, the White House adopted a "Cloud First" policy. To help federal agencies meet the Cloud First Policy, the General Services Administration, NIST, the Department of Defense, DHS, and other stakeholders collaborated to establish the Federal Risk and Authorization Management Program (FedRAMP). FedRAMP's mission is to promote the adoption of secure cloud services across the federal government by providing a standardized approach to security and risk assessment. Managed by the General Services Administration, the program aims to ensure that cloud computing services have adequate information security, while also eliminating duplicative efforts and reducing operational costs.

protect organizational operations and assets, individuals, other organizations, and the Nation from a diverse set of threats and risks, including hostile attacks, human errors, natural disasters, structural failures, foreign intelligence entities, and privacy risks. The use of these controls is mandatory for federal information systems. Of note, new to this revision of SP 800-53 are controls for Supply Chain Risk Management.

We plan to determine whether FHFA implemented select security controls outlined in NIST SP 800-53 for a sample of FISMA-reportable systems.

- **FHFA's Validation of Freddie Mac's Remediation of a Cybersecurity Deficiency Identified in a 2012 Matter Requiring Attention (MRA).** In March 2018, we reported that DER failed to ensure that the Enterprise's remediation plan for a cybersecurity-related 2012 MRA addressed an underlying deficiency cited in the MRA.[5]

  We plan to report on DER's efforts to ensure Freddie Mac remediated the deficiency.

Risk Area: Counterparties and Third Parties

Background

The Enterprises rely on institutional counterparties such as sellers and servicers, mortgage insurers, clearinghouses, and other counterparties to provide services that are critical to their business. By doing so, they must account for and mitigate potential counterparty credit risk, which is the risk associated with the inability or failure of a counterparty to meet its contractual obligations. The Enterprises and FHFA recognize that such risk is significant. If an institutional counterparty defaults on its obligations, it could negatively impact an Enterprise's ability to operate. Our publicly reportable criminal investigations include alleged fraud by different types of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies. The Enterprises and FHFA also recognize that third parties that provide operational support for a wide array of professional services could also negatively impact an Enterprise's ability to operate.

FHFA lacks the statutory authority to directly examine the Enterprises' counterparties and third parties, so it has communicated to the Enterprises its expectations of their oversight of those entities.

[5] *See* OIG, *FHFA Failed to Ensure Freddie Mac's Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions* (Mar. 28, 2018) (AUD-2018-008).

In-Progress Evaluation

- **Freddie Mac's Multifamily Business: Forbearance and Evictions During the COVID-19 Pandemic.** On August 26, 2021, the Supreme Court struck down a national eviction moratorium imposed by the Centers for Disease Control and Prevention (CDC) in response to the COVID-19 pandemic. The end of the CDC's moratorium potentially places millions of renters at risk of losing housing. The Urban Institute has estimated that 2.6 million renter households will face imminent eviction without some sort of assistance. While some states and jurisdictions maintain local eviction moratoria, and Congress has appropriated $46.5 billion toward rental assistance, relief efforts have been applied unevenly and the threat of eviction remains for many renters. The Enterprises finance a significant portion of the multifamily mortgage market. Under HERA, the FHFA Director has a responsibility to ensure that the operations and activities of the Enterprises foster resilient national housing finance markets, including activities relating to mortgages on housing for low- and moderate-income families.

  FHFA imposed its own eviction moratorium for renters who live in Enterprise-backed multifamily properties that received forbearance due to the COVID-19 emergency. Under the forbearance program, which was set to expire on September 30, 2021, property owners could not evict tenants solely for nonpayment of rent and they were required to inform tenants in writing about this and other protections.[6] During the repayment period for the forborne payments, property owners cannot charge late fees or penalties for non-payment of rent, must allow tenants flexibility for the repayment of back-rent over time, and must give tenants 30-days' notice to vacate.

  We are determining how Freddie Mac: (1) forecasts and monitors rental collections and evictions and estimates their potential impact on the multifamily loans it owns or guarantees and (2) monitors multifamily servicers' and borrowers' compliance with the renter protections that FHFA requires for the forbearance repayment period.

Planned Fiscal Year 2022 Audit

- **FHFA Examinations of Freddie Mac's Management of Third-Party Service Providers.** A third-party provider relationship is a business arrangement between a regulated entity and another entity that provides a product or service. Regulated entities use third-party service providers in their operations to reduce costs, enhance performance, and obtain access to specific expertise, applications, and systems. Freddie Mac, in its 2020 annual report filing with the SEC, noted that the use of third parties also

[6] On September 24, 2021, FHFA announced that beginning October 1, 2021, FHFA will allow the Enterprises to continue offering COVID-19 forbearance to qualified multifamily owners, unless otherwise instructed by the Agency.

exposes it to other harm, such as breach of data, fraud, or damage to their reputation if one or more of these third parties fails to maintain adequate risk and control environments.

We plan to determine whether FHFA followed its guidance for examinations of Freddie Mac's management of third-party service providers.

Planned Fiscal Year 2022 ORA Risk Assessment

- **Enterprise Fourth Party Risk**. The Enterprises rely on counterparties and third parties to originate and service the mortgages the Enterprises purchase and to provide operational support for a wide array of professional services. In turn, those counterparties and third parties rely on their own supply chains as part of supporting the Enterprises. Those supply chains or subcontractors to the third parties constitute fourth parties for Fannie Mae and Freddie Mac. Fourth parties pose additional risk that must be managed.

  We plan to discuss fourth party risk at the Enterprises and describe their efforts to mitigate that risk.

Risk Area: Internal Control over Agency Operations[7]

Background

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates developing, implementing, and complying with effective internal control within the Agency. In our work over the last several years, OIG has found that the Agency has not ensured that all of its existing controls, including policies and procedures, are sufficiently robust, nor that its personnel comply fully with them.

In-Progress Audits

- **FHFA's Hiring Practices.** FHFA employs a workforce of over 600 federal employees. In its Fiscal Year 2020 Performance and Accountability Report, FHFA stated that its greatest asset is its workforce and one of its strategic goals is to position the Agency as a model of operational excellence by strengthening its workforce and infrastructure. According to the Office of Personnel Management, workforce planning serves as the foundation for managing an organization's human capital. Similarly, GAO recognizes, in the Green Book, 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

[7] Also included in this section of the Fiscal Year 2022 Annual Plan are projects that crosscut all FHFA programs and operations and do not fit into any single management and performance challenge.

right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible."

We have reported 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."

We plan to determine whether FHFA's hiring policies, procedures, and practices are implemented as designed and whether they facilitate the Agency's hiring goals.

- **FHFA's Controls Over Employee Financial Disclosure Program.** The Ethics in Government Act of 1978, as amended, requires certain government officials to file financial disclosure reports of their finances as well as other interests outside the government. FHFA officials who serve in a grade above a certain pay level are required to file a public financial disclosure report (Office of Government Ethics (OGE) Form 278). Other FHFA employees who are not required to file the OGE Form 278, but serve in other covered positions, are required to file the confidential financial disclosure report (OGE Form 450). Within FHFA, the Office of General Counsel manages the Agency's financial disclosure program.

  We plan to assess FHFA's internal control over its employee financial disclosure program.

Planned Fiscal Year 2022 Risk Assessment and Audits

- **FHFA's Government Purchase Card and Travel Card Programs. [Mandate]** The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), as implemented by OMB Circular No. A-123, Appendix B (revised August 27, 2019), *A Risk Management Framework for Government Charge Card Programs*, requires, among other things, that the Inspector General of each executive agency conduct periodic risk assessments of agency purchase card (including convenience checks) programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments to perform analyses or audits of these programs as necessary. Where annual travel card spending for an agency exceeds $10 million, the Charge Card Act and the OMB Circular require periodic audits or reviews of the agency's travel card program. As a practice, we perform the risk assessment each year that we do not perform an audit of these programs.

We plan to conduct a risk assessment of FHFA's policies and procedures over its purchase card and travel card programs and use the assessment for planning future audits of FHFA's purchase card and/or travel card programs, as appropriate.

- **FHFA's Procedures and Controls over Vendor Payments During Fiscal Year 2021.** Congress has long recognized the risk that payments made by federal agencies to program beneficiaries, grantees, vendors, and contractors, or on behalf of program beneficiaries, may be "improper" in one or more respects. In 2020, Congress passed the Payment Integrity Information Act of 2019 (PIIA), effective March 2, 2020, which superseded earlier related laws. PIIA requires covered federal agencies to periodically review, estimate, and report programs and activities that may be susceptible to significant improper payments. FHFA, through its Office of General Counsel, has rendered the opinion that PIIA does not apply to the Agency because its funds, by law, are not considered to be Government funds or public funds. FHFA asserts in its *Performance & Accountability Report 2020* that "FHFA, in the spirit of compliance [with PIIA] and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments."

  We plan to assess the design and implementation of select FHFA controls to detect and prevent improper vendor payments.

- **FHFA's Controls over Payroll.** Payroll is often a large percentage of an entity's operating costs. Controls over payroll are important because they help to protect against potential threats, including overpayments or underpayments, paying fictitious or former employees, noncompliance, and fraud. Controls over payroll include: change authorizations, change tracking logs, error-checking reports, expense trend lines, restricting access to records, separation of duties, and audits. An organization without proper internal control over payroll procedures in place runs the risk of compensation being issued to nonexistent or terminated employees. In addition, an organization can spend more than necessary through overpayments to employees if controls are not in place to detect the overpayments. FHFA's annual payroll is approximately $123 million.

  We plan to assess the design and implementation of FHFA's internal control over payroll.

- **FHFA's Review of Administrative Policies.** In October 2019, FHFA's Office of the Chief Operating Officer (OCOO) issued its Administrative Policy Review and Updating Procedures, which describes procedures that are to be followed for reviewing and updating FHFA's administrative policies. According to OCOO's Administrative Policy Review and Updating Procedures, administrative policies are to be reviewed, at least, every five years. FHFA defines administrative policies as non-mission area specific policies that are considered to have Agency-wide impact by affecting more than one

FHFA division or office. Among other things, administrative policies address financial management, personnel management, IT, operations, facilities, legal, and/or communications matters.

We plan to determine whether FHFA followed its guidance when reviewing and updating administrative policies.

Planned Fiscal Year 2022 Compliance Reviews

- **Procurement Peer Reviews**. FHFA procedures require that peer reviews, intended to improve the completeness and quality of contract files, be performed prior to solicitation and award. However, a 2020 audit found that for 5 of 12 sampled contracts, FHFA failed to conduct the peer reviews, either prior to solicitation, prior to award, or—for 3 of the 5 contracts—at both points. FHFA's failure to perform required peer reviews increased the risk that procurement decisions and/or documentation that do not comply with FHFA's policies and procedures would not be detected and corrected timely. We recommended that FHFA ensure that peer reviews of procurement contract files are performed in compliance with requirements defined in FHFA's *Acquisitions Procedure Manual* and related FHFA supplementary guidance. FHFA agreed with the recommendation, and its Senior Procurement Executive (SPE) issued updated peer review guidance and checklists to FHFA's contracting officers. We considered FHFA's actions as responsive and closed the recommendation.

  This compliance review will assess each contract valued at $500,000 or more that was executed from April 1, 2020, through September 30, 2021 (review period), to determine: (1) whether the SPE waived a peer review for the contract; (2) if not, whether a peer review was performed for the contract prior to the solicitation issuance and before the award was made; and (3) for all contracts for which peer reviews were conducted, whether the peer reviews are performed in compliance with requirements defined in the *Acquisitions Procedure Manual* and related FHFA supplementary guidance, to include the updated March 2020 peer review guidance and checklists.

- **OMWI Diversity & Inclusion Strategic Plan.** Our 2015 evaluation found that FHFA had not acted on certain proposals made by its Office of Minority and Women Inclusion (OMWI) concerning certain diversity and inclusion (D&I) workforce issues during the review period. We recommended that FHFA adopt a D&I strategic plan, which FHFA did for fiscal years 2016-2018. FHFA also said that it would develop certain D&I and EEO standards required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and HERA. The Agency subsequently issued a revised OMWI Strategic Plan for fiscal years 2019-2021, which reiterates some but not all of the original Strategic Plan's goals.

This compliance review will verify whether OMWI fulfilled its statutory responsibility to finalize the D&I and EEO standards required by the Dodd-Frank Act and HERA by the expiration of the original Strategic Plan, which we estimate to have occurred on or about September 30, 2018.

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