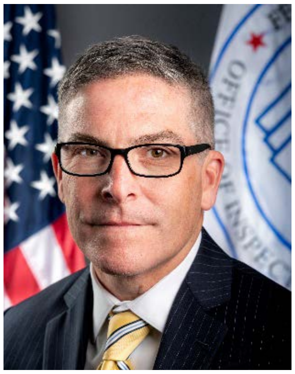
Annual Plan

Fiscal Year 2023



Message from the Inspector General

I am pleased to present the Fiscal Year 2023 Annual Plan for the Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG). OIG conducts audits, investigations, evaluations, compliance reviews, and other oversight activities to fulfill our mission to promote economy, efficiency, and integrity in FHFA's programs and operations, and to deter and detect fraud, waste, and abuse in them.

This plan describes our oversight priorities for fiscal year 2023, which tie to the risks identified in our annual Management and Performance Challenges memorandum:

- Effective supervision of the regulated entities
- Stewardship of the Enterprise conservatorships
- Oversight of information risk for the regulated entities
- Oversight of counterparty risk, third-party risk, and fourth-party risk for the regulated entities
- Oversight of model risk for the regulated entities
- Oversight of people risk for the regulated entities
- Oversight of resiliency risk for the regulated entities

The annual plan includes work already underway, as well as planned projects. Because our work remains risk-based, we consider the plan dynamic and subject to change based on evolving facts and circumstances.

Brian M. Tomney
Inspector General

October 6, 2022

Abbreviations

AHP	Affordable Housing Program
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CSS	Common Securitization Solutions, LLC
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
FedRAMP	Federal Risk and Authorization Management Program
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FISMA	Federal Information Security Modernization Act of 2014
OIG	Office of Inspector General

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Background

Introduction

Created by the Housing and Economic Recovery Act of 2008, FHFA is charged to serve as the regulator and supervisor of Fannie Mae and Freddie Mac (collectively, the Enterprises); Common Securitization Solutions, LLC (CSS), an affiliate of each Enterprise; the 11 Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities); and the FHLBanks' fiscal agent, the Office of Finance. FHFA's mission is to ensure that the regulated entities 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 2008, FHFA has also served as conservator of the Enterprises. As conservator, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue and makes business and policy decisions affecting the entire U.S. mortgage finance industry.

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, thereby promoting 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.

About OIG

The Housing and Economic Recovery Act, which amended the Inspector General Act of 1978, also established OIG. Our mission is to promote economy, efficiency, and integrity in FHFA's programs and operations, and to deter and detect fraud, waste, and abuse in them. OIG conducts audits, investigations, evaluations, compliance reviews, and other oversight activities in connection with FHFA's programs and operations, including its supervision and conservatorship of the Enterprises, and its oversight of the FHLBank System. Also, because FHFA has been placed in the unique role of both regulator and conservator of the Enterprises, our oversight role reaches matters delegated by FHFA to the Enterprises to ensure that the Enterprises are satisfying their delegated responsibilities and that taxpayer monies are not wasted or misused.

How We Do Our Work

We accomplish our mission by conducting independent oversight activities of the Agency's programs and operations, engaging in robust enforcement efforts to protect the interests of the American taxpayers, and keeping our stakeholders fully and currently informed of our work.

We achieve our vision by being an independent oversight organization that acts as a catalyst for effective management, accountability, and positive change in FHFA. We hold accountable those who waste or steal funds in connection with the Agency or the regulated entities, whether inside or outside of the federal government. We seek to inspire a workforce that embodies the highest standards of integrity, professionalism, and technical proficiency.

Our values are fundamental to accomplishing our mission and conducting our daily operations.

Mission

Promote the economy, efficiency, and integrity of FHFA programs and operations, and deter and detect fraud, waste, and abuse, thereby supporting FHFA's mission

Vision

Promote excellence and trust through exceptional service to FHFA, Congress, and other stakeholders

Values

Integrity, objectivity and independence, excellence, and respect

Strategic Goals

OIG’s mission, vision, and values are embodied in our commitment to five strategic goals for fiscal years 2022-2026.

1. Promote Economy, Efficiency, and Integrity in FHFA Programs, Operations, and Infrastructure
2. Deter and Detect Fraud, Waste, and Abuse in the Programs and Operations of FHFA, and Hold Individuals and Institutions Accountable for Both Their Actions and Inactions
3. Strengthen Communications with FHFA Leadership, Congress, and Other Stakeholders
4. Recruit, Enhance, and Sustain a Highly Skilled, High-Performing, Diverse Workforce
5. Ensure Internal Operations Support the Achievement of OIG’s Mission, Vision, and Strategic Goals

This annual plan describes how we intend to execute those strategic goals across our body of work for fiscal year 2023.

Areas of Focus

We use a risk-based approach to our work, which enables us to leverage our resources and provide effective oversight of FHFA. We focus our resources on the Agency programs and operations that pose the greatest risks to FHFA and the regulated entities; those risks are identified in our FHFA Fiscal Year 2023 Management and Performance Challenges memorandum.

OIG's fiscal year 2023 oversight priorities, as outlined in this annual plan, center on the seven management and performance challenges identified in that memorandum. These challenges directly tie to the aforementioned identified risks:

- Challenge: Effective supervision of the regulated entities
- Challenge: Stewardship of the Enterprise conservatorships
- Challenge: Oversight of information risk for the regulated entities
- Challenge: Oversight of counterparty risk, third-party risk, and fourth-party risk for the regulated entities
- Challenge: Oversight of model risk for the regulated entities
- Challenge: Oversight of people risk for the regulated entities
- Challenge: Oversight of resiliency risk for the regulated entities

The memorandum describes each challenge area in more detail. Importantly, it notes that the challenges overlap. For example, FHFA oversees information risk, counterparty risk, model risk, people risk, and resiliency risk for the Enterprises as part of its responsibilities as their conservator and supervisor. Further, risk in one area may exacerbate another risk. For example, a regulated entity could experience people risk—an inability to attract and retain staff with the requisite skill—related to modeling, thereby giving rise to model risk. OIG's fiscal year 2023 workplan prioritizes projects encompassing multiple challenge areas. The plan includes work across all regulated entities—the Enterprises, the FHLBank System, and CSS—as well as Agency operations, and it factors in the changing and highly uncertain environment.

We continually monitor events potentially impacting FHFA and housing finance, and this plan remains flexible according to changing facts, circumstances, and risks. Additionally, OIG may undertake specific work at the request of FHFA management, Congress, or other stakeholders. Therefore, the plan may adapt (e.g., new work added, planned work deferred, etc.) during the fiscal year.

OIG Offices

Office of the Chief of Staff, Risk Analysis Division

The Office of the Chief of Staff coordinates planning and strategy across OIG. Within the Office of Chief of Staff, the Risk Analysis Division enhances OIG's ability to focus our resources on the areas of greatest risk to FHFA and its regulated entities. The

Division 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 Evaluations

The Office of Evaluations conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the Inspector General Act of 1978, as amended, Inspectors General are required to adhere to the professional standards designated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The Office of Evaluations performs its work 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 Audits

The Office of Audits 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, the Office 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. The Office of Audits also oversees independent public accounting firms that perform certain audits of FHFA programs and operations.

Office of Compliance

The Office of Compliance covers two primary responsibilities: First, it determines whether FHFA effectively implemented agreed-upon corrective actions to remedy deficiencies identified during a prior OIG evaluation, audit, or other report. To meet this objective, the Office of Compliance conducts numerous activities. Most significantly, it conducts validation testing on selected closed recommendations to confirm whether FHFA took the corrective actions it said it implemented. OIG publishes its testing results to enable our stakeholders to assess both the efficacy of FHFA's corrective actions and the impact of OIG's recommendations. The Office performs compliance reviews and other work in accordance with the Blue Book. Further, the Office of Compliance administers OIG's Recommendation Tracking System, a minable database that monitors the status of each OIG recommendation. Finally, the Office consults with other OIG divisions prior to the proposed closure of

recommendations to ensure that OIG applies consistent closure standards across divisions.

The Office of Compliance also manages implementation of OIG's internal controls program in accordance with Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office's *Standards for Internal Control in the Federal Government* (also known as the Green Book).

Office of Investigations

The Office of Investigations investigates allegations of significant criminal, civil, and administrative wrongdoing that affect FHFA and its regulated entities. Investigations are conducted in accordance with professional guidelines established by the Attorney General of the United States and CIGIE's *Quality Standards for Investigations*. The Office of Investigations is staffed with special agents, investigative counsel, analysts, and attorney advisors who work in Washington, D.C., and field offices across the nation. It also manages the OIG hotline. The Office of Investigations works in partnership with prosecutors and law enforcement agencies throughout the country to effectively carry out our mission. In addition, the Office 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 2023, the Office of Investigations will initiate and continue investigations into:

- Allegations of fraud, waste, and abuse in the programs and operations of FHFA and its regulated entities
- Fraud related to the Coronavirus Aid, Relief, and Economic Security Act and other pandemic relief legislation as appropriate
- Significant cyber-criminal activity in partnership with FHFA and the regulated entities
- Allegations of employee misconduct, including hotline and whistleblower complaints

Office of Chief Counsel

The Office of Chief Counsel 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, the Office of Chief Counsel 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. The office also provides coordination and support for whistleblowers by serving as OIG's Whistleblower Protection Coordinator and advises OIG staff on hotline inquiries. The Office of Chief Counsel represents OIG in administrative and equal employment opportunity matters and coordinates closely with the Department of Justice to defend OIG in civil litigation.

Office of Administration

The Office of Administration provides management and oversight of OIG's administrative functions. Within the Office of Administration, the Budget and Finance Division oversees budget planning and execution; conducts financial forecasting and cash flow analysis; reviews, prepares, and approves agency monthly and annual financial reports; and oversees official government travel, travel credit cards, and commuter rail reimbursements for the organization. This division also coordinates the annual Government Accountability Office audit of OIG financial statements. The Office of Administration's Human Resource Division offers an array of human resource services, including agency recruitment and staffing, performance management, employee relations, compensation and benefits, work/life offerings, and awards and recognition. The Office of Administration's Information Technology Division manages OIG automated systems, networks, and telecommunications services, working within the framework established by the Office of Management and Budget and the National Institute of Standards and Technology to ensure compliance with government regulations, directives, and industry best practices. The Office of Administration's Procurement and Facilities Division oversees contracting, interagency agreements, and small purchases for the organization. This division manages leased commercial and government-owned office space, parking, government-issued fleet vehicles, Metro transit benefits, identification credentials and personal identity verification cards for logical and physical access control, emergency preparedness, and continuity of operations planning.

Planned Audits, Evaluations, and Other Projects

Risk Analysis Division

An Overview of the FHLBank System

The FHLBank System's mission is to support residential mortgage lending and community investment through its member financial institutions. To fulfill that mission, FHLBanks make collateralized loans, called advances, to their members. The members, in turn, may use the proceeds for residential mortgages, community investments, and other services for housing and community development. FHLBanks also maintain investment portfolios for liquidity purposes and to generate income.

The FHLBanks principally fund their activities through debt, known as consolidated obligations, issued through the Office of Finance for all the FHLBanks in the System. Each FHLBank is primarily liable for the payment of principal and interest on the portion of the debt issued on its behalf. Each FHLBank also has "joint and several liability" for the payment of principal and interest on all consolidated obligations across the FHLBank System. Accordingly, if one FHLBank is financially weak and unable to make its payments, the other FHLBanks must make the payments.

This white paper will provide background on the FHLBank System, as well as an overview of the current status of the System.

An Overview of Model Use and Risk at the Regulated Entities

Models can explain relationships and provide estimates based on a set of theories or assumptions, and the regulated entities use models in their businesses in a number of ways. However, this reliance involves risk of loss due to model errors or decisions based on incorrect use or application of model outputs.

This white paper will describe key ways the regulated entities use models in their businesses and provide an overview of model risk.

An Overview of CSS

CSS is an affiliate of each Enterprise that is jointly and equally owned by them. It administers the Enterprises' mortgage-backed securities portfolios and issues uniform mortgage-backed securities through the Common Securitization Platform. According to FHFA, CSS is the largest issuing agent and administrator of mortgage-backed securities, with nearly three-quarters of the market.

We plan to provide an overview of CSS and its role, as well as highlighting associated risk areas.

Recent Trends in People Risk at the Regulated Entities

The regulated entities rely on highly qualified staff with specialized skills.

That makes their ability to attract, retain, and develop well-qualified staff at sufficient staffing levels critical to their operations. COVID and the so-called Great Resignation have escalated people risk in many industries, and this is also true for the regulated entities.

This white paper will provide an overview of people risk at the regulated entities, with a particular focus on recent trends.

Office of Evaluations

FHFA's Evaluation of the Performance of the Enterprises' Boards of Directors

The FHFA 2019 Strategic Plan for Conservatorships of Fannie Mae and Freddie Mac established three broad objectives for the conservatorships: focus on core mission responsibilities; operate in a safe and sound manner; and prepare for the "eventual" exit from conservatorship. Each year, FHFA establishes conservatorship scorecards that provide focus for the Enterprises' boards of directors by identifying FHFA's broad based goals as conservator and actions to take in furtherance of those goals. The 2022 Scorecards identify seven "Assessment Criteria" and state that the Enterprises will be assessed against those criteria.

Our evaluation will review FHFA's process for annually assessing the boards' performance, including the methodology for applying the assessment criteria to the Enterprises' performance.

FHFA's Evaluation of the Performance of the CSS Board of Managers

FHFA's *2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (Conservatorship Strategic Plan) contemplates the development of a post-conservatorship strategy and governance structure for CSS. CSS is jointly and equally owned by the Enterprises and administers the Enterprises' portfolios of mortgage-backed securities. CSS is subject to the oversight of a board of managers and FHFA and, according to FHFA, conservatorship scorecards are the principal means by which the Agency aligns CSS to the priorities set forth in FHFA's Conservatorship Strategic Plan. FHFA asserts that its evaluation of CSS' performance against the objectives identified in the scorecard holds their management accountable for results. In its 2021 annual Report to Congress, FHFA reported that "The board of managers and senior management at CSS have satisfactory performance, oversight, and risk management practices."

Our evaluation will assess FHFA's methodologies and practices for annually assessing the performance of CSS' board of managers.

FHFA's Supervisory Planning and Focus on High-Risk Issues

Planning is a key component of FHFA's supervision program and essential for effective supervision of the FHLBank System. The Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervisory planning for the FHLBanks and the Office of Finance. DBR develops supervisory strategies, priorities, and examination plans through a planning process that is designed to address the nature of the risks and operations of the FHLBank system.

Our evaluation will assess DBR's risk assessment and supervisory planning activities, with a focus on FHFA's identification of high-risk areas that warrant supervisory scrutiny.

FHFA's Examination of the Safety and Soundness of Key Credit Default Models

The Enterprises use models to identify, measure, and manage exposures to various types of risk, especially credit and market risk. To evaluate credit risk, models are used to project expected future delinquencies, defaults, and losses, and the Enterprises' exposure to the possibility of such losses in different economic environments. FHFA has characterized the use of models that were not developed using historical performance data, coupled with inappropriate model assumptions, as an "unsafe and unsound" practice. According to FHFA, such unsafe or unsound practices have caused a substantial dissipation of assets and earnings and may cause an Enterprise to be in an unsafe or unsound condition.

Our evaluation will assess whether FHFA has completed the model risk examination work sufficient to reach a conclusion on whether the Enterprises' credit default models satisfy FHFA's supervisory expectations.

FHFA's Supervision and Examination of the Enterprises' Business Resiliency

In a 2021 report, we found that the Division of Enterprise Regulation (DER) closed a matter requiring attention even though deficiencies at Fannie Mae had not been corrected. For nine years, FHFA did not take timely and decisive supervisory action to bring the Enterprise into compliance with the Agency's prudential standard, which requires a "regulated entity to have adequate and well-tested disaster recovery and business resumption plans for all major systems and have remote facilitates [sic] to limit the effect of disruptive events." Although an Enterprise's ability to recover from a disruption caused by a natural disaster or other source is important to its safety and soundness, FHFA did not formally opine during those nine years on the question of whether the

Enterprise met, or did not meet, this standard. The current Deputy Director of DER mandated via examination guidance that examiners must opine on whether a matter requiring attention that is designated as a critical supervisory matter under DER policy meets or does not meet an applicable prudential standard.

This evaluation will assess whether DER's supervisory efforts were successful in addressing the Enterprise's shortcomings and in ensuring that the Enterprise's disaster recovery capabilities meet the applicable prudential standard.

Office of Audits

FHFA's Conservatorship Decisions

Within FHFA, the Division of Conservatorship Oversight and Readiness is responsible for overseeing and facilitating FHFA's conservatorship decision-making process. Specifically, the Division evaluates Enterprise requests for FHFA conservator approval and matters submitted for conservator notice. The Division of Conservatorship Oversight and Readiness engages in certain monitoring and surveillance on behalf of FHFA as conservator. The Division'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.

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.

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.

The Community Investment Program and the Community Investment Cash Advance 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 Community Investment Cash Advance Program advances for community development projects such as commercial, industrial, and manufacturing projects, social services, and public facilities.

The audit objective is to determine whether DBR has followed its guidance for examinations of FHLBank AHPs, to include:

- The AHP Competitive Application Program and the AHP Homeownership Set-Aside Program
- The Community Investment Program and the Community Investment Cash Advance Program

FHFA Examinations of FHLBanks' 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. Each FHLBank and the Office of Finance relies on vendors and other third parties to perform certain critical services. A failure or interruption of one or more of those services, including as a result of breaches, cyberattacks, system malfunctions or failures, or other technological risks, could negatively affect the business operations of the FHLBanks and the Office of Finance. If one or more of these key external parties were not able to perform their functions for a period of time, at an acceptable service level, or for increased volumes, the FHLBanks' and the Office of Finance's business operations could be constrained, disrupted, or otherwise negatively affected.

We plan to determine whether FHFA provides effective oversight of FHLBanks' management of the risk from third-party service providers.

FHFA's Initiatives Responding to the Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government

Executive Order 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 Executive Order, advancing equity across the federal government can create opportunities for the improvement of communities that have been historically underserved, which benefits everyone. According to FHFA, the Agency is not required, but may voluntarily choose, to incorporate the Executive Order's mandates into its policies and operations and has introduced several initiatives consistent with the objectives of the Executive Order.

The audit objective is to determine what initiatives FHFA has undertaken in response to the Executive Order and the extent to which those initiatives are achieving their purpose.

FHFA's Examination Activities of the Diversity and Inclusion Programs at the Regulated Entities

FHFA's Office of Minority and Women Inclusion is tasked, by law, to ensure that the entities it regulates comply with diversity and inclusion requirements. As such, the Office of Minority and Women Inclusion conducts examination activities of the diversity and inclusion programs of the regulated entities. According to FHFA's 2020 Performance and Accountability Report, in September 2020, the FHFA Director approved the implementation of a separate system to rate the regulated entities' diversity and inclusion programs and issue reports of examination separate and apart from the safety and soundness reports of examination.

We plan to determine whether the Office of Minority and Women Inclusion has effectively examined the diversity and inclusion programs at the regulated entities.

FHFA's Implementation of Its Enterprise Fair Lending Examination Program

According to Advisory Bulletin 2021-04, *Enterprise Fair Lending and Fair Housing Compliance*, FHFA considers ensuring Enterprise compliance with fair lending laws part of FHFA's obligation to affirmatively further the

purposes of the Fair Housing Act in its program of regulatory and supervisory oversight over the Enterprises and its responsibility to ensure the Enterprises comply with all applicable laws. FHFA expects each Enterprise to maintain a fair lending program that effectively identifies, assesses, monitors, and mitigates fair lending risk and prevents the occurrence of fair lending violations in Enterprise operations.

FHFA's Enterprise fair lending examination program is conducted by the Office of Fair Lending Oversight within the Division of Housing Mission and Goals. As noted in an attachment to DER's Reports of Examination Operating Procedures Bulletin (December 23, 2021), Office of Fair Lending Oversight examination results affect the management component rating included in the Enterprises' reports of examination.

We plan to determine whether FHFA's Enterprise fair lending examination program was implemented in accordance with Advisory Bulletin 2021-04, *Enterprise Fair Lending and Fair Housing Compliance*, and other applicable policies and procedures, and whether the program was effective.

FHFA's Oversight of the Enterprises' Insider Trading Risk Management

FHFA views insider trading risk management as a key component of an Enterprise's compliance risk management program. The Agency expects the Enterprises to establish and maintain effective compliance programs based on Enterprise-wide risk assessment processes to manage insider trading activities and the inherent risk of those processes. According to Advisory Bulletin 2022-01, *Insider Trading Risk Management,* (February 8, 2022), insider trading risk is the risk of legal or regulatory sanctions, damage to current or projected financial condition, damage to business resilience, or damage to reputation resulting from nonconformance with U.S. Securities and Exchange Commission insider trading laws and disclosure requirements, rules, prescribed practices, internal policies and procedures, and ethical and related conflict-of-interest standards (insider trading obligations).

Each Enterprise is responsible for establishing an effective governance framework, comprehensive insider trading governing documents, and an effective risk identification and assessment system, along with identifying, managing, and reporting on insider trading-related controls as part of its robust internal controls. As set forth in Advisory Bulletin 2022-01, insider trading obligations apply to the Enterprise, its employees, officers, directors, select contingent workers, other third parties with access to material nonpublic information, and individuals receiving "tips" of such

information, if the person receiving the tip is a family member or has a meaningfully close personal relationship with the party improperly disclosing the material nonpublic information (covered parties). By implementing a well-designed, adequately resourced, and effective compliance program, an Enterprise can make it less likely that covered parties will engage in illegal insider trading activity.

We plan to determine whether FHFA's oversight of the Enterprises' Insider Trading Risk Management programs conforms with Advisory Bulletin 2022-01, *Insider Trading Risk Management*, and other applicable laws, regulations, policies, and procedures and whether the Enterprises' programs were implemented effectively.

Model Risk Examinations of Fannie Mae's Automated Underwriting Systems

The Enterprises use systems and models to assist with a range of functions. These include credit risk measurement and control functions, such as credit decision-making. Fannie Mae's proprietary automated underwriting system, Desktop Underwriter®, is used by mortgage lenders to evaluate the substantial majority (over 90% in 2021) of Fannie Mae's single-family loan acquisitions. Desktop Underwriter measures credit risk by assessing the primary risk factors of a mortgage and provides a comprehensive risk assessment of a borrower's loan application and eligibility of the loan for sale to Fannie Mae. Risk factors evaluated by Desktop Underwriter include the key loan attributes such as loan to value ratio, debt to income ratio, loan purpose, and geographic concentration. Desktop Underwriter applies Fannie Mae's assessment of the borrower's credit data, including using trended credit data when available. Desktop Underwriter analyzes the results of this risk and eligibility evaluation to arrive at the underwriting recommendation for the loan case file.

We plan to determine whether FHFA provides effective oversight of model risk present within Fannie Mae's automated underwriting systems.

DER Oversight of Risk from Non-Depository Sellers and Servicers

The Enterprises are exposed to institutional counterparty credit risk with mortgage sellers and servicers, including non-depository sellers and servicers. Compared with depository financial institutions, these institutions pose additional risks because they may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight, as depository institutions. As part of their risk management processes, Fannie Mae and Freddie Mac each have established an approval process for

seller/servicers that includes both ascertaining that seller/servicers meet minimum financial eligibility requirements and monitoring compliance of approved seller/servicers. On February 24, 2022, FHFA re-proposed enhanced eligibility requirements for the Enterprises' single family seller servicers (Servicer Eligibility 2.0 Requirements). Current as well as new applicant Enterprise seller/servicers will be required to comply with all Servicer Eligibility 2.0 Requirements by December 31, 2022. The Enterprises use the eligibility requirements to monitor and manage risk exposures to non-depository seller/servicers, while largely relying on banking regulators' prudential capital and liquidity standards as financial requirements for depository counterparties.

We plan to determine whether FHFA provides effective oversight of the Enterprises' risk from non-depository seller/servicers.

FHFA's Oversight of Desktop Appraisals

In response to the COVID-19 pandemic, FHFA initiated several temporary flexibilities for the Enterprises, including the use of desktop appraisals. With a desktop appraisal, the appraiser can perform the valuation from his/her desktop without a physical inspection of the property. On October 18, 2021, FHFA announced a measure to restore Enterprise desktop appraisal flexibility, including incorporation of desktop appraisals into the Selling Guides for many new purchase loans.

According to Fannie Mae's Selling Guide, transactions eligible for a desktop appraisal must meet certain criteria: one-unit property, principal residence, purchase transaction, an LTV ratio less than or equal to 90%, and a Desktop Underwriter loan case file that receives an "Approve/Eligible" recommendation. The desktop appraisal must also include the same exhibits as a traditional appraisal, plus the floor plan of the property. Transactions ineligible for a desktop appraisal include, among other things, two- to four-unit properties, condo and co-op units, manufactured homes, construction-to-permanent loans, second homes and investment properties, all refinances, and Desktop Underwriter loan case files that receive an "Ineligible" recommendation.

We plan to assess FHFA's oversight of the Enterprises' use of desktop appraisals.

FHFA's Oversight of Enterprises' Purchasing of Loans in FEMA Designated Flood Zones

The Enterprises' seller/servicer guides require sellers to determine whether a property is located in a FEMA designated flood zone; if so, the

property must have flood insurance at the time of the loan closing. According to OIG’s white paper (WPR-2021-004), *Disaster Risk for Single-Family Mortgages*, the Enterprises indicate that their loss exposure is reduced by insurance coverage, among other things; however, that coverage may be inadequate. Additionally, the Department of Housing and Urban Development Office of Inspector General issued an audit report (2021-KC-0002), *FHA Insured $940 Million in Loans for Properties in Flood Zones Without the Required Flood Insurance*, in 2021, which cited nearly 3,900 FHA-insured loans that were not eligible for insurance because they did not have the required flood insurance coverage.

The audit objective is to determine whether FHFA has effective supervision over Enterprise purchases of single-family loans in FEMA designated flood zones.

DER Adverse Findings Remediation

DER conducts safety and soundness examination activities of Fannie Mae, Freddie Mac, and CSS, which may result in the issuance of adverse examination findings, including matters requiring attention, recommendations, and violations. DER examiners are responsible for assessing the Enterprises’ response to these adverse examination findings, including assessing the Enterprises’ corrective actions plan, monitoring the Enterprises’ implementation of corrective actions, and assessing the overall adequacy of the finding remediation.

We plan to determine whether FHFA has implemented controls to ensure the Enterprises’ timely and effective remediation of adverse examination findings.

FHFA’s Employee and Contractor Onboarding and Background Investigation Processes

Homeland Security Presidential Directive-12, Policies for a Common Identification Standard for Employees and Contractors, states it is the policy of the United States to enhance security, increase efficiency, reduce identity fraud, and protect personal privacy by establishing mandatory, government-wide standards for secure and reliable forms of identification issued by the federal government to its employees and contractor employees. The Directive requires agencies to create a policy to ensure that federal and contractor employees have a fully adjudicated background investigation to gain physical access to federally controlled facilities and logical access to federally controlled information systems. FHFA uses a service provider, the U.S. Department of the Interior’s Interior Business Center, to support its

onboarding and background investigation functions.

The audit objective is to determine whether FHFA has effective controls to ensure timely initiation and adjudication of background investigations for its federal and contractor employees.

External Penetration Test of FHFA's Network and Systems

The Federal Information Security Modernization Act of 2014 (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.

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

FHFA's Vulnerability Management Program

Vulnerabilities are often found in individual software components, systems comprised of multiple components, or the interactions between components and systems. They are typically exploited to weaken the security of a system, its data, or its users, with impact to their confidentiality, integrity, or availability. According to the Department of Homeland Security, recent reports from government and industry partners indicate that the average time between discovery and exploitation of a vulnerability is decreasing as today's adversaries are more skilled, persistent, and able to exploit known vulnerabilities. The federal government must continue to take deliberate steps to reduce the overall attack surface and minimize the risk of unauthorized access to federal information systems as soon as possible. It is essential to aggressively remediate known systems vulnerabilities to protect federal information systems and reduce cyber incidents.

The audit objective is to determine whether FHFA's vulnerability management program is effective to ensure timely remediation of known systems vulnerabilities.

FHFA's Cybersecurity Supply Chain Risk Management

According to National Institute of Standards and Technology Special Publication 800-161 Revision 1, *Cybersecurity Supply Chain Risk Management Practices for Systems and*

Organizations, cybersecurity supply chain risk refers to the potential for harm or compromise that may arise from suppliers, their supply chains, their products, or their services. Cybersecurity risks through the supply chain are the results of threats that exploit vulnerabilities or exposures within the supply chain itself.

In 2020, there was a significant supply chain incident in which software from the SolarWinds® Corporation was breached, giving hackers access to government agency and private company systems using this software. Federal agencies are now being assessed on their efforts to address supply chain risk exposure. A Supply Chain Risk Management category was added to the fiscal year 2021 Inspector General FISMA Reporting Metrics focusing on the maturity of an agency's supply chain risk management strategies, plans, policies, procedures, and processes to ensure that products, systems, system components, and services of external providers are consistent with the organization's cybersecurity and supply chain risk management requirements. In order to mitigate future attacks, it is imperative that processes and controls are in place to prevent and detect supply chain threats.

The audit objective is to evaluate the effectiveness of FHFA's efforts to identify, assess, and mitigate cybersecurity supply chain risks.

FHFA's Oversight of Cloud-Computing Systems

The Office of Management and Budget required that executive branch agencies use the Federal Risk and Authorization Management Program (FedRAMP) for authorizing cloud services by June 2014. Additionally, the Office of Management and Budget 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 a security control baseline for cloud-computing systems based on National Institute of Standards and Technology Special Publication 800-53 Revision 5, *Security and Privacy Controls for Federal Information Systems and Organizations*.

The audit objective is to determine whether FHFA's oversight of cloud-computing systems conforms with National Institute of Standards and Technology requirements and FHFA standards. As part of our audit, we plan to test select security controls for compliance with FedRAMP's security control baseline.

FHFA's Privacy Program

42 U.S.C. § 2000ee-2 requires FHFA to establish and implement comprehensive privacy and data

protection procedures governing FHFA's collection, use, sharing, disclosure, transfer, storage, and security of information in an identifiable form related to employees and the public. Such procedures are to be consistent with legal and regulatory guidance, including Office of Management and Budget regulations, the Privacy Act of 1974, and section 208 of the E-Government Act of 2002. 42 U.S.C. § 2000ee-2 also requires OIG to periodically conduct a review of FHFA's implementation of this section and report the results to Congress. Our practice is to contract with an independent public accountant to conduct the review as a performance audit under our oversight.

The audit objective is to conduct reviews of FHFA's Privacy Program as deemed warranted. Our last audit of the program was during fiscal year 2021.

FY 2023 FHFA's Information Security Program

FISMA requires the Inspector General of each agency to annually conduct an independent evaluation of the agency's information security program. Our practice is to contract with an independent public accountant to conduct the annual evaluation as a performance audit under our oversight.

The audit objective is to evaluate the effectiveness of FHFA's information security program and practices, including that of OIG, and respond to *Inspector General FISMA Reporting Metrics* issued by the Office of Management and Budget.

Risk Assessment of FHFA's Purchase Card and Travel Card Programs FY 2023

The Charge Card Act, as implemented by Office of Management and Budget 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 and 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 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 for the timeframe April 1, 2022, to March 31, 2023. We will use the results of the assessment for planning future audits of the programs.

Office of Compliance

Compliance Review of FHFA's Disposal of Electronic Media

A 2020 OIG audit found that FHFA lacked adequate controls over electronic media (e.g., mobile phones, printers, etc.) that had been approved for disposal. FHFA did not maintain accountability over such media and could not reconcile the number of items approved for disposal with those actually collected by its contractor. In addition, FHFA did not sanitize the media prior to disposal as its procedures required, creating a risk that Agency data could be exposed. We recommended that FHFA review, revise, and implement procedures for disposal of electronic media targeted for destruction, consistent with applicable federal and industry requirements. The Agency accepted our recommendation and revised its procedures for its disposal of electronic media. Based on these steps, we closed the recommendation in March 2021.

Our compliance review will assess whether the Agency followed the revised procedures during a specified review period.

Compliance Review of FHFA's Intern Hiring

In 2019, OIG found that FHFA had often hired interns who were relatives of Agency employees, and that it lacked a clear policy to promote compliance with laws and regulations designed to prevent nepotism in the intern hiring process. Among our recommendations, we recommended that FHFA develop and implement such a policy. We also recommended that before FHFA extends an offer of a summer internship to an Agency employee's relative, it should obtain written certifications from hiring and human resources officials regarding the proposed hiring that, to the best of each official's knowledge and after reasonable inquiry: (a) there is no evidence that an FHFA employee interceded on the relative's behalf for the internship position; and (b) that the hiring official did not provide preferential treatment. In addition, we recommended that the Agency execute participant agreements with each intern, consistent with applicable regulations. FHFA agreed with our recommendations and pledged corresponding corrective actions. We closed our recommendations in September 2019 on that basis.

Our compliance review will assess the Agency's adherence to the pledged corrective actions during a specified review period.

Compliance Review of DBR Examination Frequency

Agency examinations require examiners to complete multiple work programs. DBR has established minimum frequency guidelines for performing the multiple work programs that pertain to

the FHLBanks, and it requires its examiners to document their justification for not completing a particular work program on time. A 2020 audit found that DBR had not performed all of its scheduled examination work programs and had not met the documentation requirements referenced above. We recommended that DBR reinforce its requirements for documenting justifications and approvals for exceptions to its minimum frequency guidelines. The Agency agreed with our recommendation and updated its guidelines to establish a new process for approving and documenting exceptions to its minimum frequency guidelines. Based on this action, OIG closed the recommendation in November 2020.

Our compliance review will assess whether DBR adhered to the updated guidelines during a specified review period.

Compliance Review of CSS' Cybersecurity Incident Reporting to DER

A 2019 evaluation found that DER did not collect consistent cybersecurity incident data from the Enterprises, and therefore it lacked the data necessary to effectively oversee the Enterprises' controls to protect against cyberattacks and associated risks. We recommended that FHFA take certain steps to address these deficiencies, including but not limited to analyzing the large disparities between the Enterprises' respective cybersecurity incident reporting and revising existing reporting requirements to promote standardization of data, including the use of common definitions. In response to our recommendations, DER issued revised guidance in August 2020 that directs the Enterprises to report monthly on all cybersecurity incidents, and to report even more quickly any "Major" and "Significant" cybersecurity incidents, per DER's definitions of those terms. Based upon this guidance, we closed our recommendations in October 2020.

DER's revised guidance applies expressly to CSS, which is an affiliate of each Enterprise. This compliance review will assess whether CSS adhered to DER's revised guidance during a specified review period.

External Projects

External Peer Review (Yellow Book)

In accordance with the Government Auditing Standards and CIGIE's Guide for Conducting Peer Reviews of Audit Organizations of Federal OIGs, we will review another OIG's system of quality control for their audit organization. A system of quality control encompasses the office of inspector general's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming in

all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The elements of quality control are described in the Government Auditing Standards.

External Peer Review (Blue Book)

In accordance with CIGIE's Guide for Conducting External Peer Reviews of Inspection and Evaluation Organizations of Federal OIGs, we will review another OIG's inspection and evaluation organization. An external peer review assesses whether an OIG's inspection and evaluation organization's internal policies and procedures are consistent with CIGIE's *Quality Standards for Inspection and Evaluation*, and whether the organization's reports comply with those standards and its associated internal policies and procedures.

Review of the Response to the Climate-Related Financial Risk Executive Order by FSOC and Its Member Agencies

The FHFA Inspector General is a statutory member of the Council of Inspectors General on Financial Oversight. The Council regularly convenes working groups to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council. OIG may participate in or lead these working groups.

We currently serve as co-lead with the Department of the Treasury OIG for a Council working group review related to Executive Order 14030. The objective of this audit is to determine what actions the Financial Stability Oversight Council has taken, or plans to take, in response to the Executive Order as of June 30, 2022, and whether those actions are consistent with the policy, objectives, and directives set forth in the Executive Order.

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