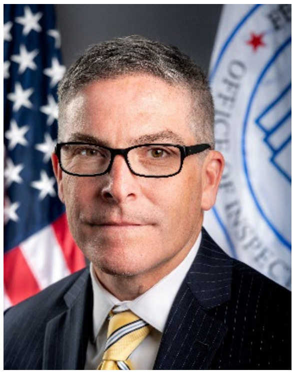
Annual Plan

Fiscal Year 2024



Message from the Inspector General

I am pleased to present the Fiscal Year 2024 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 2024, which tie to the risks identified in our annual Management and Performance Challenges memorandum:

- Continue strengthening supervision of the regulated entities
- Continue stewardship of the Enterprise conservatorships
- Respond to market volatility and change
- Enhance oversight of cybersecurity at the regulated entities and ensure an effective information security program at FHFA
- Ensure oversight of counterparty risk, third-party risk, and fourth-party risk at the regulated entities
- Strengthen oversight of the regulated entities' model risk
- Oversee people risk at the regulated entities and enhance FHFA's human capital management
- Ensure resiliency risk at the regulated entities and at FHFA

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, 2023

Abbreviations

AMA	Acquired Member Assets
CIGFO	Council of Inspectors General on Financial Oversight
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
DHMG	Division of Housing Mission and Goals
FAR	Federal Acquisition Regulation
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FHFA or Agency	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FISMA	Federal Information Security Modernization Act of 2014
IT	Information Technology
NIST	National Institute of Standards and Technology
OIG	Federal Housing Finance Agency 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 fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity and funding for housing finance and community investment.

Since 2008, FHFA has also served as the Enterprises' conservator. 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 package them into mortgage-backed securities that are either sold to investors or held 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, among other things, use the advance proceeds to originate mortgages or to 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, thereby supporting FHFA's mission. OIG conducts audits, investigations, evaluations, compliance reviews, and other oversight in connection with FHFA's programs and operations, including its supervision and conservatorship of the Enterprises, and its oversight of the FHLBank System and CSS. Also, because FHFA has been placed in the unique position of serving both as the Enterprises' regulator and their conservator, our oversight role reaches matters delegated by FHFA to the Enterprises to ensure that the Enterprises satisfy 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 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

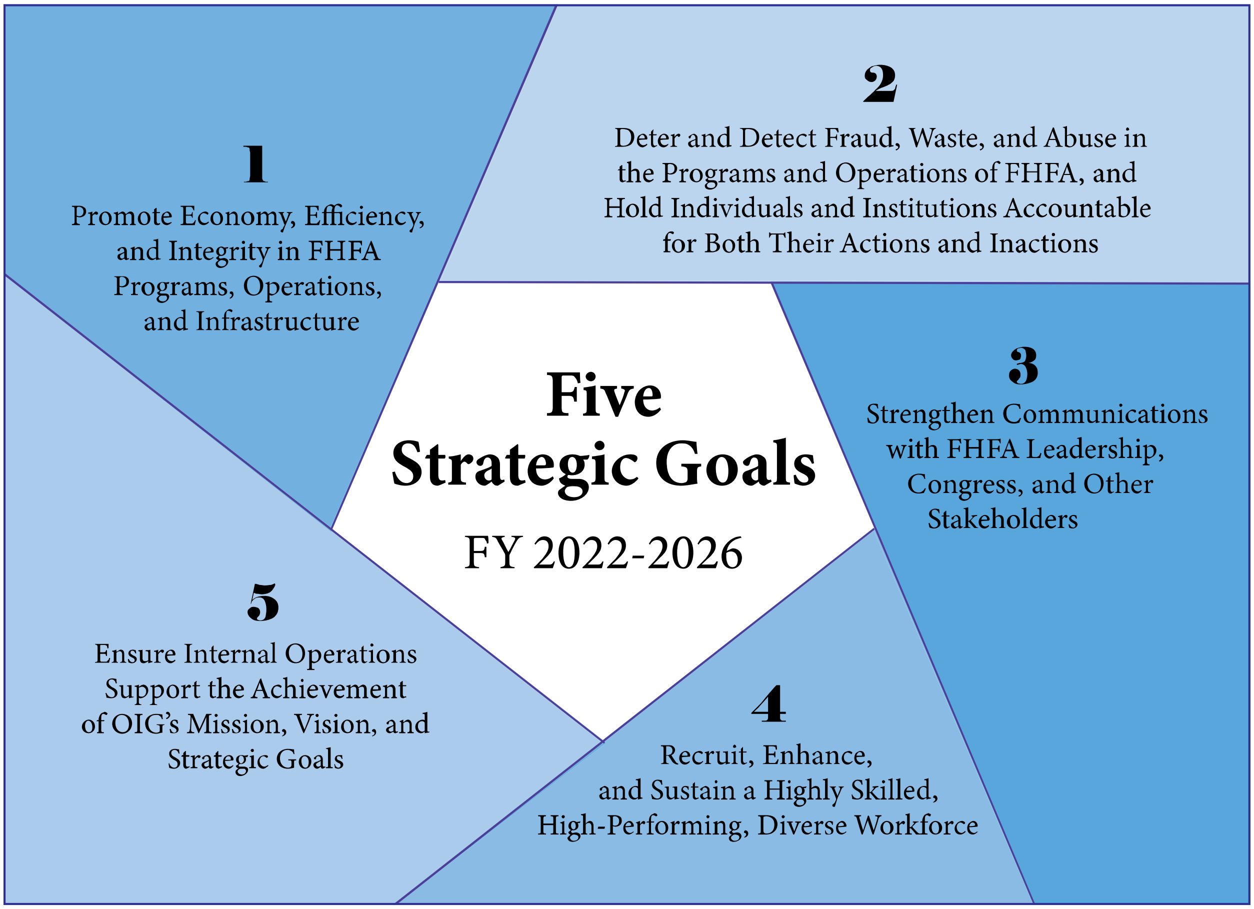
Promote excellence and trust through exceptional service to FHFA, Congress, and other stakeholders

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.



This annual plan describes how we intend to execute those strategic goals across our body of work for fiscal year 2024.

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 2024 Management and Performance Challenges memorandum.

OIG's fiscal year 2024 oversight priorities, as outlined in this annual plan, center on the eight management and performance challenges identified in that memorandum. These challenges directly tie to the aforementioned identified risks:

- Continue strengthening supervision of the regulated entities
- Continue stewardship of the Enterprise conservatorships
- Respond to market volatility and change
- Enhance oversight of cybersecurity at the regulated entities and ensure an effective information security program at FHFA
- Ensure oversight of counterparty risk, third-party risk, and fourth-party risk at the regulated entities
- Strengthen oversight of the regulated entities' model risk
- Oversee people risk at the regulated entities and enhance FHFA's human capital management
- Ensure resiliency at the regulated entities and at FHFA

The memorandum describes each challenge area in more detail. Importantly, it notes that the challenges interrelate and overlap. For example, FHFA oversees the Enterprises' market risk, information risk, counterparty risk, model risk, people risk, and resiliency risk as part of its responsibilities as their conservator and supervisor. Further, risk in one area may exacerbate another risk. For example, information risk and associated vulnerabilities may impact resiliency risk and the Enterprises' ability to effectively conduct operations. Market risk can impact model risk in that market volatility and interest rate changes may affect current models and their ability to accurately predict outcomes. To address these issues, OIG's fiscal year 2024 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 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 OIG 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 Resources 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.

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 established 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 Chief Counsel

The Office of Chief Counsel serves as the legal advisor to OIG, providing guidance on OIG's authorities and responsibilities under the Inspector General Act. It advises OIG staff on legal issues relating to audits, evaluations, compliance reviews, investigations, administrative inquiries, and procurement. It also provides counsel on OIG policies, procedures, operations, and risk management. The Office of Chief Counsel reviews and comments on FHFA regulations and legislation, as appropriate; manages OIG's Freedom of Information Act and Privacy Act programs; and assists with the issuance and enforcement of OIG subpoenas. Additionally, it is OIG's designated ethics office and serves as the Whistleblower Protection Coordinator. The Office of Chief Counsel represents OIG in administrative and equal employment opportunity matters and coordinates with the Department of Justice to defend OIG in civil litigation.

Office of the Chief of Staff, Risk Analysis Division

The Office of the Chief of Staff coordinates communication, planning, and strategy across OIG. Within the Office of the 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 products, including data-driven dashboards, on areas of potential emerging and ongoing risks.

Office of Compliance

The Office of Compliance has two primary responsibilities. First, it determines whether FHFA effectively implemented agreed-upon corrective actions to remedy deficiencies identified during prior OIG evaluations, audits, or other reports. 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 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 standards established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) for inspections and evaluations, which are known as the *Quality Standards for Inspection and Evaluation*, commonly referred to as the Blue Book. Further, the Office of Compliance administers OIG's Recommendation Tracking System, a minable database that monitors each OIG recommendation's status. Finally, the Office consults with other OIG divisions before the proposed closure of recommendations to ensure that OIG applies consistent closure standards.

The Office of Compliance's second primary responsibility is to manage the implementation of OIG's internal controls program in accordance with Office of Management and Budget's 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 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 must adhere to the professional standards established by CIGIE. The Office of Evaluations performs its work in accordance with the Blue 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 2024, 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
- Significant cyber-criminal activity in partnership with FHFA and the regulated entities
- Fraud related to the Coronavirus Aid, Relief, and Economic Security Act and other pandemic relief legislation as appropriate
- Allegations of employee misconduct, including Hotline and whistleblower complaints

Planned Audits, Evaluations, and Other Projects

Office of Audits

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.

We plan to determine whether FHFA has effective controls to ensure timely initiation and adjudication of background investigations for its federal and contractor employees.

FHFA's Oversight of Fannie Mae's IT Investment Management

The U.S. Government Accountability Office defines an information technology (IT) investment as the expenditure of resources on selected IT or IT-related initiatives with the expectation that the benefits from the expenditure will exceed the value of the resources expended. Fannie Mae invests $300 million annually in its major IT strategic initiatives, which are vital to its historical mission to provide liquidity, stability, and affordability to the U.S. housing finance system. Large organizations making such substantial investments in IT should ensure that each investment decision is subjected to careful scrutiny to ensure, among other things, that the investment's risks and returns have been evaluated and are understood; it aligns with the organization's mission; it continues to meet mission needs at the expected levels of cost and risk; and its impact on mission performance is evaluated. In order to effectively scrutinize their investments, federal and industry organizations implement and enforce IT investment management processes.

We plan to assess whether the Division of Enterprise Regulation (DER) provided effective oversight of Fannie Mae's IT investment management. As part of our audit, we will review the extent and effectiveness of DER's oversight of Fannie Mae's IT investments.

Oversight of FHLBank Mortgage Programs

The FHLBanks are authorized to purchase mortgages under the Acquired Member Assets (AMA) regulation. The FHLBanks operate both on-balance sheet and off-balance sheet programs through which members can sell mortgage loans. Under the FHLBanks' AMA programs, participating FHLBanks acquire and hold (on their balance sheets) conforming loans and loans guaranteed or insured by a department or agency of the U.S. government. The AMA programs are structured such that the FHLBank manages a loan's interest rate risk, while the participating member manages a substantial portion of the risks associated with originating the mortgage loan, including a significant portion of the credit risk. Through the three existing AMA programs, Mortgage Partnership Finance, Mortgage Purchase Program, and Mortgage Asset Program, FHLBanks offer various products to members with differing credit risk-sharing structures. The FHLBanks held $56.1 billion of mortgage loans on their balance sheets as of December 31, 2022, up from $55.6 billion at year-end 2021.

We plan to determine whether FHFA's Division of Federal Home Loan Bank Regulation (DBR) has provided effective oversight of the FHLBanks' risk management of their Acquired Member Assets (mortgage) programs.

Fannie Mae's Loss Mitigation Program

In 2016, FHFA required Fannie Mae to develop an aligned-crisis loan modification program that built on lessons learned from the crisis-era modification programs. The aligned effort resulted in the Flex Modification. Servicers were required to implement Flex Modification by October 1, 2017. The Flex Modification requires servicers to offer a modification to eligible borrowers who are at least 90 days delinquent, without requiring a borrower to submit any documentation. The Flex Modification permits a reducing of the interest rate, extension of the repayment period, or a chance to suspend payment of the principal. FHFA also required Fannie Mae to develop an Equitable Housing Finance Plan that promotes equitable access to affordable and sustainable housing. Fannie Mae's Equitable Housing Finance Plan set a target to conduct monthly portfolio monitoring reviews to identify disparities in forbearance and loss mitigation outcomes.

Division of Housing Mission and Goals (DHMG) oversight should provide assurance that eligible homeowners are being appropriately evaluated and provided with sustainable mortgage modifications, which is important for promoting housing stability and preventing foreclosures.

We plan to determine whether FHFA provides effective oversight of Fannie Mae's use of its flex modification program.

DER Oversight of Risk from Non-Depository Seller/Servicers

The Enterprises are exposed to institutional counterparty credit risk with mortgage seller/servicers including non-depository seller/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 August 3, 2022, FHFA directed the Enterprises to implement 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 most Servicer Eligibility 2.0 Requirements by September 30, 2023. 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 DER's oversight is effective for ensuring the Enterprises are managing non-depository seller/servicers risk.

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 appraisers can perform the valuation from their desktops 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, a loan-to-value 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 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. 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 DHMG. 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 applicable policies and procedures.

DBR 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 of the FHLBanks 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, cyber-attacks, 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 DBR's oversight is effective for ensuring that the FHLBanks are managing third-party provider risks.

Fiscal Year 2024 FISMA Audit of FHFA's Information Security Program and Practices

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 practice is to contract with an independent public accountant to conduct the annual evaluation as a performance audit under our oversight.

We plan 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.

DBR Oversight of FHLBank Market Risk

Interest rates have risen after a long period of historically low-rate stability. Relatedly, recent bank failures have been attributed to the failure of the banks' senior management to manage basic interest rate risk. Changes in interest rates, foreign exchange rates, commodity prices, or equity prices, if not controlled, can threaten an FHLBank's liquidity, earnings, economic capital, and solvency. Further, changes to the credit ratings of consolidated obligations could adversely affect the FHLBanks' ability to access the capital markets, their primary source of funding, on acceptable terms, which could adversely affect the financial condition and results of operations of an FHLBank and the FHLBanks on a combined basis. An FHLBank's risk management practices should enable it to identify, measure, monitor, and control its market risk exposures. An FHLBank may use a number of measures to monitor and manage interest-rate risk, including income simulations, value at risk, and duration or market value sensitivity analyses. Given the unpredictability of the financial markets, capturing all potential outcomes in these analyses is extremely difficult.

We plan to determine whether DBR provides effective oversight of the FHLBanks' practices for identifying, measuring, monitoring, and controlling market risk.

Internal Penetration Test of FHFA's Network and Systems

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 internal penetration test of the Agency was in 2019.

We plan to determine whether FHFA's security controls were effective to protect its network and systems against internal threats.

FHFA's Annual Disaster Recovery Exercise

FHFA relies heavily on IT to support the Agency's primary mission to provide financial safety and soundness, and to provide oversight for Fannie Mae, Freddie Mac, CSS, FHLBanks, and the Office of Finance. It recognizes that disruption of network computer services for an appreciable length of time would have an unacceptable impact on the Agency's ability to produce their products and services. This would adversely affect the mission of FHFA. According to FHFA, the purpose of the annual Disaster Recovery exercise is to validate the proper operation of the resiliency and recovery measures incorporated into the overall IT infrastructure. These measures ensure the restoration of the production computing environment within an acceptable period of time in the event of an incident or disaster that disrupts normal computer operations. National Institute of Standards and Technology (NIST) and FHFA standards require FHFA to test the contingency plans at least annually.

We plan to determine whether FHFA has effectively planned and successfully conducted disaster recovery exercises for the general support system that provides connectivity between the Agency's sites, headquarters, and data centers, as well as internet access, email, and directory services for all Agency divisions and offices.

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 Federal Emergency Management Agency (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), *Federal Housing Administration (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.

FHFA's Post-Award Contract Management

Government procurement is the process through which government agencies acquire goods and services. Appropriated agencies are subject to the Federal Acquisition Regulation (FAR). The FAR provides uniform policies and procedures for government acquisitions of goods and services by contract using appropriated funds. However, the FAR is not applicable to FHFA because FHFA receives its funding through assessments collected from the regulated entities rather than by congressional appropriation. Instead, all contractual obligations entered by FHFA are governed by FHFA's Acquisition Policy and the related Acquisition Procedures Manual which provides procedures to implement the Acquisition Policy.

The Office of the Chief Operating Officer oversees the agency's day-to-day operations that include facilities management, contingency planning, continuity of operations, financial planning, budgeting, contracting, human resources management, IT, quality assurance, and coordination with the FHFA Office of Inspector General. According to an FHFA official, FHFA's obligated contract amounts were $87 million in FY 2021 and $110 million in FY 2022.

We plan to assess the effectiveness of FHFA's post-award contract management.

DER's Oversight of Fannie Mae's Cloud Computing Risk Management

FHFA Advisory Bulletin, *Cloud Computing Risk Management*, AB 2018-04 (August 15, 2018) expects each regulated entity to appropriately manage its cloud computing risks as part of its enterprise-wide risk management program, and in accordance with all relevant FHFA guidance. Therefore, each regulated entity should use a risk-based approach across key areas listed below to meet FHFA supervisory expectations: governance; third-party cloud provider management; information security; and business continuity cloud provider management.

We plan to assess whether DER conducted effective oversight of Fannie Mae Cloud Computing Risk Management.

DER Oversight of Fannie Mae’s Multifamily Servicer and Portfolio Monitoring

The Enterprises’ multifamily business provides mortgage market liquidity primarily for properties with five or more residential units, which may be apartment communities, cooperative properties, seniors housing, dedicated student housing, or manufactured housing communities. As of December 31, 2022, Fannie Mae held $440 billion in multifamily mortgages. Multifamily mortgages are large, complex credits whose credit profiles are influenced by current and anticipated cash flows from the property (e.g., affected by vacancy rates); the type, location, and condition of the property; financial strength of the borrower; structure of the financing (e.g., fixed or adjustable rates, interest only periods, balloon payments); and market trends. Multifamily mortgage servicing is generally performed by the lender who sold the mortgage to the Enterprises. As a seller/servicer, the lender is responsible for ongoing evaluation of the financial condition of properties and property owners, administering various types of loan and property-level agreements (including agreements covering replacement reserves, completion or repair, and operations and maintenance), as well as conducting routine property inspections. The Enterprises monitor the financial strength and performance of the servicer as well as the performance and risk characteristics of the loans and the underlying properties on an ongoing basis at the loan and portfolio level.

We plan to assess whether DER conducted effective oversight of Fannie Mae’s multifamily mortgage servicer and portfolio monitoring functions.

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.

Risk Assessment of FHFA's Purchase Card and Travel Card Programs FY 2024

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, 2023, to March 31, 2024. We will use the results of the assessment for planning future audits of the programs.

FHFA's Controls over Contracted Legal Services

FHFA buys goods and services for its operations. Although not subject to the FAR, FHFA states in its Acquisition Policy (FHFA Policy No. 503) that it follows the FAR on a voluntary basis, except for flexibilities set forth in its Acquisition Procedures Manual. The manual, along with other supplementary FHFA memoranda, implements the Agency's Acquisition Policy. FHFA's Office of Budget and Financial Management is responsible for managing the Agency's procurement system and all contracting activity. For more than 10 years, FHFA has spent a substantial portion of its contracting funds to obtain various legal services. During the period October 2018 to April 2021, FHFA awarded legal services contracts potentially totaling $700 million.

The audit objective is to determine whether (1) the Agency's controls over contracted legal services provide reasonable assurance that improper payments will not occur or will be detected in the normal course of business and (2) payments for contracted legal services were properly supported as a valid use of Agency funds during November 4, 2020, to September 30, 2023.

DBR Oversight of the FHLBanks' Office of Finance

The Office of Finance is a joint office of the FHLBanks whose primary functions are to: (1) facilitate the issuance and servicing of all FHLBank consolidated obligations (the principal funding source used by the FHLBanks to make advances and to purchase mortgage loans and investments); (2) prepare the quarterly and annual combined financial reports of the FHLBanks; (3) function as the fiscal agent of the FHLBanks; and (4) administer the Resolution Funding Corporation, a tax-exempt government corporation created during the savings and loan crisis of the 1980s. In addition, the Office of Finance performs research and serves as a source of information for the FHLBanks on capital markets developments, manages relationships with the rating agencies and the U.S. Treasury as they relate to the consolidated obligations, and performs various debt marketing activities. Consolidated obligations outstanding were $1,161.4 billion and $651.9 billion, and represented 98% and 97% of the FHLBanks' total liabilities, as of December 31, 2022, and 2021.

FHFA's DBR conducts annual examinations of the Office of Finance. Examination activities focus on the activities of the board of directors, including the audit committee, and senior management and the assessment of operational risks that may affect the Office of Finance and, in turn, the safety and soundness of the FHLBanks. Examination activities also focus on debt issuance and debt servicing as these are the key day-to-day activities of the Office of Finance.

We plan to assess FHFA's oversight of the Office of Finance.

Office of Evaluations

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.

FHFA’s Supervisory Oversight of Credit Risk Management at the FHLBanks

The FHLBanks’ core mission is to further housing finance and to foster community investment. This mission is accomplished, in part, by providing advances to members. FHFA regulations require advances to be fully collateralized. According to FHFA’s Credit Risk Module, “[i]n most instances, an FHLBank does not have physical control of a majority of the collateral unless and until the FHLBank determines that such actions are necessary based upon an assessment of the member’s credit risk.”

This evaluation will determine the extent to which DBR has examined the adequacy of each FHLBank’s assessment of their members’ credit risk and taken appropriate action to address any deficient practices it may have identified.

FHFA’s Oversight of Fannie Mae’s Compliance with the Agency’s Prudential Standard to Ensure Business Resiliency

In a 2021 report, we found that 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. In November 2021, the 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.

FHFA’s Oversight of the Enterprises’ Implementation of the Equitable Housing Finance Plans

FHFA stated its intent to oversee the Enterprises’ implementation of their equitable housing finance plans in the Agency’s 2022-2026 Strategic Plan. The conservatorship directive that instructed the Enterprises to prepare the plans also required FHFA to review eligibility targeted programs, such as special purpose credit programs, prior to their implementation.

This evaluation will assess FHFA's methodology and criteria for that oversight, with a focus on its review of the Enterprises' proposals for eligibility targeted programs.

FHFA's Oversight of the Implementation and Performance of the Enterprises' Mission Specific Products

FHFA establishes policy that requires implementation by the Enterprises, and is responsible for overseeing implementation and assessing progress and performance. This evaluation will assess controls around data collection and reporting on mission specific products (i.e., affordable housing), and evaluate the integrity of those controls and reliability of reported results. This evaluation is also a follow-on to OIG's credit default models evaluation. In that evaluation, we noted that DHMG is responsible for monitoring the performance of the affordable housing products. Historically, this has included monitoring of loan originations, credit attributes, delinquencies, and applicability to housing mission and goals.

Office of Compliance

DER's Examination Plan Deviations

A 2020 OIG audit assessed whether DER completed certain planned ongoing monitoring activities for the 2019 examination cycle, and if not, whether it documented the deviations from its plans as required. The audit found that contrary to requirements, DER cancelled or deferred multiple planned exams for reasons that were not risk-based, and that DER lacked documentation to show that several of these deviations were approved by the Examiner in Charge and the Deputy Director.

We recommended that FHFA reinforce the requirement to Examiners in Charge and examination managers that changes to an examination plan must be risk-based, and that resource constraints do not qualify as risk-based reasons for such changes. We also recommended that FHFA reinforce the requirement that the Deputy Director must approve in writing any revisions to an examination plan. FHFA proposed corrective actions that were considered to be responsive to these recommendations. We closed these recommendations in September 2021 on this basis.

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

FHFA's Hiring of, Awards to, and Promotion of Women and Minorities

In 2015, OIG reviewed diversity and related workforce issues at FHFA at the request of nine members of the U.S. House of Representatives. For the review period, OIG found: (1) more women in senior- and mid-level positions than previously; (2) minorities were promoted more often overall and were better represented at the senior level than before, but their representation in mid-level positions was relatively static; (3) senior-level employees' performance ratings showed no statistically significant differences related to race, ethnicity, or gender, but mid-level employees' performance ratings occasionally exhibited such differences; (4) senior-level minority employees recently received performance bonuses that were approximately 27% less on average than those awarded to senior-level white employees; and (5) FHFA lacked plans for hiring minority candidates at junior levels to increase diversity in senior positions through internal promotions.

Among other steps, we recommended that FHFA regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions. FHFA agreed and pledged corresponding corrective actions. We closed this recommendation in March 2020 on that basis.

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

FHFA's Oversight of Fannie Mae's Servicer Reimbursement Operations

A 2013 OIG evaluation reviewed FHFA's oversight of the process by which Fannie Mae reimburses mortgage servicers for various payments they make on behalf of delinquent borrowers, such as payments for property maintenance, insurance, taxes, and loan liquidation costs. OIG found that FHFA had increased its previously minimal oversight of Fannie Mae's servicer reimbursement operations. However, OIG also determined that errors made by the contractor which processed servicers' reimbursement claims for Fannie Mae resulted in the Enterprise underpaying on certain claims and overpaying on others, that Fannie Mae's oversight of that contractor focused on contractual compliance rather than minimizing overpayments, and that Fannie Mae lacked the remedial means to recover most overpayments.

Among other steps, we recommended that FHFA ensure that Fannie Mae takes the necessary actions to reduce the contractor's processing errors. We also recommended that FHFA require Fannie Mae to (a) quantify and aggregate its overpayments to servicers regularly;

(b) implement a plan to reduce these overpayments by (i) identifying their root causes, (ii) creating reduction targets, and (iii) holding managers accountable; and (c) report its findings and progress to FHFA periodically. FHFA agreed with these recommendations and pledged to take certain corrective actions in response. Based on these promised corrective actions, we closed the first recommendation in June 2014 and the second one in October 2018.

Our compliance review will assess the Agency's implementation of the promised corrective actions during a specified review period.

FHFA's Inclusion in Procurement Contracts of the FAR's Whistleblower Protection Language for Contractor Employees

When procuring goods and services, FHFA voluntarily follows the FAR, which prescribes certain contract clauses to implement federal whistleblower protections for contractor employees. A November 2017 interim directive instructed FHFA's contracting officers to use the FAR's more explicit whistleblower protection clause for all solicitations and awards exceeding the simplified acquisition threshold. A 2021 OIG audit – conducted following the Project on Government Oversight's issuance of a letter to CIGIE regarding the inclusion of whistleblower protection language in agency contracts – found that contrary to the November 2017 interim directive, FHFA did not include the explicit whistleblower protection clause in 92% of the sampled contracts, but had begun taking multiple corrective actions once the audit was initiated.

We recommended that FHFA reinforce to contracting officers, through training and supervision, the requirement to include the explicit whistleblower protection clause in procurements that exceed the simplified acquisition threshold. FHFA agreed with the recommendation, and OIG closed it in September 2021 based on the Agency's promised corrective actions.

Our compliance review will assess the Agency's implementation of the promised corrective actions during a specified review period.

DHMG's Oversight of FHLBank Member Compliance with Community Support Requirements

In 2015, OIG evaluated FHFA's oversight of two mission-related requirements applicable to long-term advances made by the FHLBanks, including that FHLBank members receiving those advances meet applicable standards that implement the community support requirements from the Community Reinvestment Act. DHMG was responsible for performing biennial community support reviews of FHLBank members, but OIG found that some of DHMG's reviews were untimely, some failed to include all required FHLBank members due to limitations in DHMG's database of those members, and some were not completed. OIG did not make recommendations based on these findings, but FHFA stated nevertheless that it was drafting policies and procedures for the community support reviews.

This project will assess the Agency's implementation of the promised corrective actions during a specified review period.

External Projects

CIGFO Audit/Review of FSOC

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

We plan to participate in CIGFO's next working group.

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