Federal Housing Finance Agency
Office of Inspector General

OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program

Compliance Review • COM-2015-001 • July 29, 2015

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Executive Summary

The Federal Housing Finance Agency Office of Inspector General (OIG) was established by the Housing and Economic Recovery Act, which amended the Inspector General Act of 1978. OIG conducts independent performance audits, program and management evaluations, and investigations of Federal Housing Finance Agency (FHFA/Agency) programs and operations, which include the conservatorships of Fannie Mae and Freddie Mac (together, the Enterprises), and works to prevent and detect fraud, waste, and abuse in them.

Based on the findings in its audits and evaluations, OIG may make recommendations to FHFA to promote economy and efficiency in its administration of such programs and operations, and prevent fraud, waste, and abuse. In response to each OIG recommendation, FHFA can accept it in full; reject it; or accept it partially and offer alternative corrective actions to remediate the shortfall identified by OIG, such as adopting other controls or enhancing existing controls. OIG closes an accepted or partially accepted recommendation when it makes an independent determination that the Agency's corrective actions have remediated the shortfall, or that corrective actions designed to do so are underway, or will be shortly. In determining whether to close such recommendations, OIG independently assesses representations by the Agency and documents provided by it.

In December 2014, OIG established the Office of Compliance and Special Projects (OCom) to conduct risk-based follow-up assessments (referred to as "Compliance Reviews") that test FHFA's ongoing implementation of corrective actions that served as the basis for OIG's decision to close the associated recommendations. For example, if OIG closed a recommendation based upon FHFA's representation that it was developing enhanced Enterprise examination procedures, an OCom Compliance Review might test FHFA's implementation of the enhanced procedures to determine if it had remediated the shortfalls identified in the OIG report. OIG believes that OCom will enhance OIG's ability to stimulate positive change in critical areas and promote economy, efficiency, and effectiveness at the Agency.

Why OIG Did This Report

This Compliance Review reports on the Agency's actions subsequent to OIG's 2012 closure of a recommendation in a 2011 OIG evaluation report about the Agency's capacity to examine the Government Sponsored Enterprises (GSEs) it regulates (Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks)). The 2011 report was Evaluation Report EVL-2011-005, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (Sept. 22, 2011). In that report, we explained that the Agency's examination

program consisted of targeted examinations, continuous supervision, supervisory analyses, and remediation activities. OIG found that FHFA lacked a sufficient number of examiners and that two-thirds of its examiners were not commissioned. This means that the examiners had not completed a structured process of classroom and on the job training (OJT) that would provide them with technical competencies and practical examination experience.

To address its lack of a sufficient number of examiners, the Agency reported that it was implementing a plan to add examiners. To address the lack of commissioned examiners, the Agency reported that it was developing an examiner commission program. Among OIG's recommendations in the 2011 report, we recommended that the Agency "[m]onitor the development and implementation of the examiner [commission] program and take needed actions to address any shortfalls." The Agency agreed with that recommendation and OIG closed it in 2012, based upon progress the Agency made in developing the program. This Compliance Review was conducted to assess the Agency's implementation of the examiner commissioner program it developed.

What OIG Found

In 2011, OIG and the Agency agreed that the efficiency and effectiveness of FHFA's oversight of the GSEs would be strengthened by a sufficient corps of commissioned examiners. In 2013, the Agency inaugurated its Housing Finance Examiner (HFE) commission program. At that time, FHFA explained that the central objective of its HFE program was to produce commissioned examiners who were qualified to lead major risk sections of GSE examinations. FHFA employees who enroll in the program (enrolled examiners) and complete its 16 OJT assignments, 16 courses on financial risks and housing finance, and pass a final examination, are eligible to receive HFE commissions. When it rolled out its HFE program, the Agency explained that it was "an approximately four year commitment," and that this timeframe "may be shortened for participants with prior classroom training and work experience."

We conducted this Compliance Review of the Agency's implementation of the HFE program with a specific focus on the 19-month period from August 2013 to March 2015. We found evidence indicating that the HFE program was not on track to meet its central objective—to produce commissioned examiners who were qualified to lead major risk sections of GSE examinations. Only one of the 66 enrolled examiners had submitted to the Agency office responsible for administering the HFE program records reflecting completion of any of the 16 required OJT assignments during 2014 and early 2015. OIG interviews with Agency examination officials also did not identify records indicating that enrolled examiners were progressing in meeting their OJT requirements.

COM-2015-001

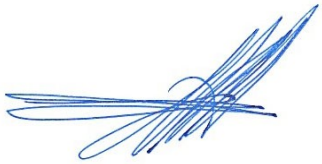
July 29, 2015

Further, FHFA records indicated that a considerable minority of enrolled examiners—over 20%—completed no more than one of the required 16 courses. OIG concludes that since many of the enrolled examiners failed to progress in meeting the HFE program requirements during its first 19 months of operation, their ability to earn HFE commissions within the projected time frame of four years or less is at risk.

What OIG Recommends

OIG recommends that the Agency determine the causes of the shortfalls identified in this report and implement a strategy to ensure that the HFE program fulfills its central objective. Otherwise, FHFA's examination program will continue to lack a sufficient number of commissioned examiners, whom the Agency acknowledges are needed to lead major risk sections of GSE examinations. FHFA agreed with this recommendation and described steps it plans to take to strengthen the administration of the HFE program (see Appendix A to this report).

The report was prepared by Wesley M. Phillips, Senior Policy Advisor, and Karen E. Briscoe, Senior Investigative Counsel, and has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaoig.gov. We appreciate the assistance of the officials from FHFA in completing this Compliance Review.



Richard Parker
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TABLE OF CONTENTS .....

EXECUTIVE SUMMARY 2

ABBREVIATIONS 6

BACKGROUND 7

Findings and Recommendation from OIG's 2011 Evaluation Report on FHFA's Lack of an Examiner Commission Program 7

FHFA's Roll-Out of the HFE Program in 2013 8

A Significant Percentage of Front-Line Enterprise Examiners Are Enrolled in the HFE Program 9

Half of the 66 Examiners Enrolled in the HFE Program Have Been Granted Waivers for OJT and/or Course Requirements 10

COMPLIANCE REVIEW RESULTS 10

FHFA Did Not Possess Records Indicating that Enrolled Examiners Were Fulfilling Their OJT Requirements 11

More Than 20% of Enrolled Examiners in the HFE Program Had Completed No More than One of the Required Courses as of March 2015 13

FHFA Did Not Fully Comply with Its Controls for Approving Waivers of OJT and Course Requirements in Three of Five Tested Cases 13

RECOMMENDATION 15

OBJECTIVE, SCOPE, AND METHODOLOGY 16

APPENDIX A 17

FHFA's Comments on FHFA-OIG's Findings and Recommendation 17

APPENDIX B 19

FHFA-OIG's Response to FHFA's Comments 19

ADDITIONAL INFORMATION AND COPIES 20

ABBREVIATIONS

Agency or FHFA	Federal Housing Finance Agency
DBR	Division of Bank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
EDB	Examiner Development Branch
EIC	Examiners-in-Charge
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
FHLBanks	Federal Home Loan Banks
Freddie Mac	Federal Home Loan Mortgage Corporation
GARP	Global Association of Risk Professionals
GSE	Government Sponsored Enterprises, which includes Fannie Mae, Freddie Mac, and the FHLBanks
HFE	Housing Finance Examiner
MBA	Mortgage Bankers Association
OCom	Office of Compliance and Special Projects
OIG	Federal Housing Finance Agency Office of Inspector General
OJT	On the Job Training
OPM	Office of Personnel Management

BACKGROUND

Findings and Recommendation from OIG's 2011 Evaluation Report on FHFA's Lack of an Examiner Commission Program

In our September 2011 evaluation report on the Agency's capacity to examine the GSEs, we found that only about one-third of FHFA's examiners were commissioned, and the Agency lacked a **commission program**. Agency officials reported to OIG at that time that the efficiency and effectiveness of the Agency's examination program was impeded by an insufficient number of commissioned examiners.[1]

Commission Program: A structured curriculum of classroom instruction and on-the-job training that provides examiners with technical competencies and practical examination experience. A commissioning program helps standardize examination processes and ensure the efficiency and effectiveness of examinations.

When OIG issued the 2011 report, FHFA was in the early stages of developing an examiner commission program[2] patterned after programs at other federal financial regulatory agencies. We recommended that FHFA management "[m]onitor the development and implementation of the examiner [commission] program, and take needed actions to address any shortfalls."

FHFA agreed with our recommendation; in October 2012, we closed it based upon the Agency's development of the program to date. At that time, the Agency had hired examiner training specialists to assist in developing the program, contracted with the Office of Personnel Management (OPM) to conduct assessments to define examiner competencies and conduct skills assessments regarding their programs, and developed a proposed examiner commission program for senior management review.

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[1] During the 2011 evaluation, Agency officials said that even though only one-third of its examiners were commissioned, taken as a whole the examination staff possessed significant professional diversity and expertise in critical areas such as financial analysis, accounting, and the mortgage industry. During this Compliance Review, the Deputy Director of the Division of Enterprise Regulation (DER) reiterated that many non-commissioned examiners have advanced degrees and professional certificates as well as considerable mortgage industry experience.

[2] FHFA used interchangeably the following terms: accreditation/commissioning and accredited/commissioned. *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs*, EVL-2011-005, at 23, 31 (Sept. 23, 2011).

FHFA's Roll-Out of the HFE Program in 2013

FHFA completed the development of the HFE program in 2013 and opened enrollment to Agency employees in August of that year.[3] In announcing the HFE program internally in June 2013, the Agency explained that the program is intended to produce commissioned examiners who meet high professional standards of training and experience, and are qualified to lead the examination of major risk areas at any of the entities that the FHFA supervises.[4] The Agency's acknowledgement of the importance of commissioned examiners is further underscored by its requirement that all non-commissioned examiners hired after July 17, 2013, are required to enroll in the program and to obtain their commissions.[5]

In its *2013 Performance and Accountability Report*, FHFA stated:

> The main objective of the [HFE] program is to provide examiners with broad knowledge to conduct successful risk-based examinations. **A Housing Finance Examiner Commission will indicate whether an examiner is qualified to lead the examination of a major risk area at Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.** The program…ensure[s] an examiner has the skills and technical knowledge necessary to evaluate the conditions and practices of the entities that FHFA supervises.[6] (emphasis added)

As implemented, FHFA's HFE program consists of:

- A total of 13 in-division and 3 cross-division OJT assignments (total of 16) during which enrolled examiners take part in examinations of the Enterprises and the FHLBanks. In-division OJT began in 2014, and cross-division OJT began in 2015;[7]

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[3] FHFA opened enrollment in the HFE program to its employees in August 2013 and offered the first required course in November 2013.

[4] FHFA internal HFE program guidance.

[5] FHFA initially considered making enrollment in the HFE Program mandatory for all examiners. However, it ultimately decided otherwise because a considerable number of FHFA's non-commissioned examiners on board as of June 2013 had conducted examinations for many years. In 2014, FHFA awarded HFE commissions to 65 examiners previously commissioned by other federal financial regulatory agencies.

[6] FHFA, *2013 Performance and Accountability Report*, Planning for the Future.

[7] In-division OJT takes place wholly within FHFA's two examination divisions, DER, which examines Fannie Mae and Freddie Mac, and the Division of Bank Regulation (DBR), which examines the 11 FHLBanks and the Office of Finance. In-division OJT assignments include all key risk areas.

Cross-division OJT assignments require examiners assigned to DER to work on DBR examinations of FHLBanks, and examiners assigned to DBR to work on DER examinations of the Enterprises. Cross-division OJT assignments are limited to the areas of credit risk, market risk, and capital risk.

- 12 internal courses on FHFA's examination practices, credit risk, market risk, model risk, operational risk, governance risk, capital, and earnings, among others;
- Four external courses, with one offered by the Global Association of Risk Professionals (GARP) and three offered by the Mortgage Bankers Association (MBA), with associated tests or other requirements;[8] and
- A final examination, including a mock presentation of examination findings.[9]

When it announced the HFE program internally, the Agency advised that, "[a] newly hired examiner has four years to complete the program"[10] and stated that "the program length may be shortened for participants with prior classroom training and work experience."[11] During our field work, FHFA officials provided us with different scenarios of the completion timeline for the HFE program for the enrolled examiners, depending on the number of OJT and/or course waivers (waivers are discussed in more detail below) granted to them. Under each scenario, the completion time was projected at less than four years.

The HFE program is administered by the Agency's Examiner Development Branch (EDB). Among other things, the EDB coordinates OJT for enrolled examiners, administers courses (e.g., identifies course instructors, reviews course content, and schedules course dates and locations), reviews and approves waiver requests, and maintains records of enrolled examiners' progress in the HFE program and their completion of it.

A Significant Percentage of Front-Line Enterprise Examiners Are Enrolled in the HFE Program

As of March 2015, there were 66 FHFA enrolled examiners in the HFE program.[12] Of these 66,[13] 33 were examiners on the Fannie Mae and Freddie Mac Core Teams, which the Agency

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[8] Enrolled examiners must earn GARP's International Certificate in Banking Risk and Regulation by taking the self-study course and passing an examination administered at the end of it. Additionally, enrolled examiners must attend and successfully complete the MBA's School of Mortgage Banking (I, II, and III).

[9] FHFA is working with OPM to develop the final exam. It is expected to be completed by late 2015.

[10] FHFA internal HFE program guidance.

[11] FHFA internal HFE program guidance.

[12] In this review, we refer to FHFA employees enrolled in the HFE program as "enrolled examiners" or "examiners," but we recognize that FHFA permits non-examiners to enroll in it and some are currently so enrolled.

[13] Of the 66 enrolled examiners in the HFE program as of March 2015, 12 enrolled on a mandatory basis (because they were hired on or after July 17, 2013), and 54 enrolled voluntarily.

refers to as its front-line Enterprise examination units.[14] Agency data indicate that 15 of 31 examiners (48%) on the Fannie Mae Core Team, and 18 of 25 examiners (72%) on the Freddie Mac Core Team were enrolled in the HFE program.[15]

Half of the 66 Examiners Enrolled in the HFE Program Have Been Granted Waivers for OJT and/or Course Requirements

In 2013, FHFA established a process to waive OJT and course requirements for examiners with previous experience.[16] By March 2015, FHFA had waived OJT and/or course requirements for 33—or 50%—of the 66 enrolled examiners. See Figure 1, below. In some cases, the waivers amounted to a majority of the HFE program's total of 32 OJT and course requirements. Specifically, FHFA waived approximately two-thirds of all program requirements (21 or more waivers) for two examiners and half or more of all requirements (16 or more waivers) for nine other examiners.

FIGURE 1. NUMBER OF THE 66 ENROLLED EXAMINERS IN THE HFE PROGRAM WHO RECEIVED OJT AND/OR COURSE WAIVERS AS OF MARCH 2015

Enrolled Examiners Receiving 1 to 5 Waivers	Enrolled Examiners Receiving 6 to 10 Waivers	Enrolled Examiners Receiving 11 to 15 Waivers	Enrolled Examiners Receiving 16 to 20 Waivers	Enrolled Examiners Receiving 21 or More Waivers	Total Receiving Waivers
6	8	8	9	2	33

Source: FHFA records.

COMPLIANCE REVIEW RESULTS

The Agency has publicly announced the central goal of the HFE program: to produce commissioned examiners who are qualified to lead major risk sections of GSE examinations. Our Compliance Review found that, as of March 2015, the HFE program was not on track to

[14] The core teams, which are stationed on-site at Fannie Mae and Freddie Mac, are primarily responsible for conducting examinations of the Enterprises.

[15] The remaining 33 examiners then enrolled in the program included 11 members of the DER staff who were not core team members, 19 members of the DBR staff, and 3 members of the staff of the Division of Housing Mission and Goals (DHMG).

[16] As discussed later in this report, enrolled examiners may submit forms requesting waivers based on their previous OJT and course experiences. Newly hired examiners have three months from the date of their enrollment in the HFE program to submit waiver requests.

meet this goal, and the ability of many enrolled examiners to earn their commissions within four years or less is at risk.

According to available Agency records, only one of the 66 examiners enrolled in the HFE program had submitted to EDB official forms reflecting completion of any required OJT assignments in 2014 and early 2015. OIG interviews with Agency officials did not identify records indicating that enrolled examiners were progressing in meeting any of their non-waived OJT requirements; and a considerable minority of enrolled examiners (23%) had taken none or only one of their non-waived required courses on financial risks and housing finance. Of the recorded progress made by the 33 enrolled examiners who had received waivers in the HFE program as of March 2015, Agency records show that waivers accounted for more than 72% of that progress. For 11 enrolled examiners, the waivers amounted to a majority of the HFE program's total of 32 OJT and course requirements. Our analysis of a sample of approved waivers found that FHFA does not always follow its internal controls for granting them.

FHFA Did Not Possess Records Indicating that Enrolled Examiners Were Fulfilling Their OJT Requirements

FHFA requires enrolled examiners to record their completed OJT assignments on a form that they submit to EDB. FHFA officials advised us that enrolled examiners may submit this documentation to EDB as each OJT assignment is completed, or may wait until they have completed all of their non-waived OJT activities to do so. As of March 2015, only one of the 66 enrolled examiners had submitted a form to EDB demonstrating completion of any of the 16 OJT requirements that had not been waived.[17]

Recognizing that this recordkeeping process might not fairly reflect whether enrolled examiners were making progress in meeting the OJT requirements not already waived, we sought to gather evidence from the Examiners-in-Charge (EIC) of the Fannie Mae and Freddie Mac Core Teams, a DBR official, and the cross-divisional OJT coordinators for DER and DBR regarding the progress made by enrolled examiners under their supervision.[18] As of March 2015, 48% of the 31 members of the Fannie Mae Core Team and 72% of the 25 members of the Freddie Mac Core Team were enrolled examiners in the HFE program; FHFA projected that a typical OJT assignment would last 12 weeks. Given the logistics, coordination, and personnel reassignments necessary to support completion of OJT requirements as of March 2015, and considering the relatively small size of each core team,

[17] At the time of our Compliance Review, FHFA had not yet verified that the OJT assignments completed by this enrolled examiner will qualify for credit toward an HFE commission.

[18] These FHFA officials were unable to provide records indicating that enrolled examiners were assigned to and completing OJT requirements for the HFE program as of March 2015.

we expected that the EIC for each core team would have some understanding about OJT assignments for enrolled examiners on their respective teams. However, both EICs advised us that they generally lacked information about OJT assignments because OJT was the responsibility of their subordinate managers, and neither could provide us with records of in-division OJT assignments being planned or undertaken by core team members who were enrolled in the program.[19] We inferred from the EICs' general lack of knowledge and the absence of records that enrolled examiners on those core teams were not progressing in meeting their OJT requirements. We also spoke with two enrollees, both of whom enrolled in the HFE program in 2013, one from DER and one from DBR. Both told us that, to date, they had not been assigned to, or completed, any OJT tasks.

As our field work was ongoing, the Agency official responsible for administering the HFE program sent an email to enrolled examiners from DER and DHMG asking them to document the status of their OJT assignments to date while their memories were "still fresh."[20] Thereafter, the official reported to us that approximately 10 or 11 examiners responded to the request, but neither the executive nor EDB officials had yet undertaken a substantive review of the responses. Even if EDB determines the reported information represents valid OJT, it indicates only about 23% of the DER and DHMG examiners enrolled in the HFE program have reported being assigned to, or completing, any non-waived OJT during 2014 and early 2015.

We were also advised by Agency officials in March 2015 that cross-divisional OJT had been suspended through the end of the second quarter of 2015 for logistical reasons. The officials reported that, as currently structured, the cross-divisional curriculum could impede DER's ability to examine the Enterprises given the large number (44) of total DER staff (core team and other staff) enrolled in the program that, at some point, would have to be assigned to DBR to fulfill their cross-divisional OJT requirements. The officials said that they are considering alternative approaches to cross-divisional OJT and expect it to resume in the second half of 2015.

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[19] One EIC said that an enrolled examiner from DBR had completed a cross-division OJT assignment with his core team. This individual is the only enrolled examiner who submitted forms to EDB reflecting any OJT assignments. The other EIC said that one member of his core team had been assigned to DBR for cross-division OJT and that he had hosted an enrolled examiner from DBR on his core team. At the time of this Compliance Review, neither of these enrolled examiners had submitted forms to EDB reflecting completion of any OJT assignments.

[20] As of March 2015, 47 of the 66 examiners enrolled in the HFE program were assigned to DER and DHMG. The executive said she did not send the email to DBR examiners, of which there were 19 in March 2015, because DBR officials said they were collecting OJT information separately.

More Than 20% of Enrolled Examiners in the HFE Program Had Completed No More than One of the Required Courses as of March 2015

In addition to OJT requirements, the HFE program requires enrolled examiners to complete 16 courses on financial risks and housing finance (minus any courses that have been properly waived). As of March 2015, 46 of the 60 enrolled examiners (or 77%) who began the HFE program prior to October 2014 had completed two or more non-waived courses.[21] Among these 46 examiners, 28 had completed five or more courses. As of that time, however, the remaining 14 examiners (23%) had completed none or only one of their required courses.[22] See Figure 2, below.

FIGURE 2. COURSE COMPLETION AS OF MARCH 2015 BY ENROLLED EXAMINERS

Completed Two or More Courses	Completed One Course	Completed No Courses	Total
46	7	7	60*

*Excludes six examiners who enrolled after October 2014 since they may not have had the opportunity to complete required courses yet. Source: FHFA records.

The Agency official in charge of the HFE program said she was concerned that some of the enrolled examiners had taken none or only one of the required courses since the program's inception in 2013. That official noted that participation in the two HFE courses offered thus far in 2015 had declined in comparison to earlier periods.

FHFA Did Not Fully Comply with Its Controls for Approving Waivers of OJT and Course Requirements in Three of Five Tested Cases

As we reported earlier, FHFA waived OJT and course requirements for 33, or one-half, of the 66 examiners enrolled in the HFE program as of March 2015. FHFA waived two-thirds of the requirements for two examiners, and more than half of them for nine other examiners.

FHFA established two levels of controls to help ensure that waiver requests from enrolled examiners had merit. First, the enrolled examiner must complete and sign separate waiver request forms, which summarize his or her previous OJT assignments or courses. Second, his

[21] FHFA records indicate that, thus far, enrolled examiners who have completed the internal courses have rated them as either "good" or "excellent."

[22] Of the 224 courses these 14 examiners had to complete to satisfy their HFE requirements (14 x 16 = 224), FHFA waived 49 (or 22%) as of March 2015. That left the examiners with a total of 175 non-waived courses (or 78%) to complete in order to finish the program (224 – 49 = 175). However, by March 2015, the 14 examiners together had completed only 7 non-waived courses (or 3%) of the 224 total.

or her direct supervisor, the first executive in the chain of supervision, and an official in EDB must review the forms and separately approve the waiver requests in writing.

As part of our verification testing of whether waivers were properly granted, we selected a random sample of 15 examiners enrolled in the HFE program as of early March 2015 and reviewed Agency documentation associated with them. Of the 15 examiners sampled, FHFA approved waiver applications submitted by five of them, denied a waiver request in one case, and the remaining nine did not request waivers.

For three of the five enrolled examiners, FHFA granted waivers even though not all of the required signatures were on the associated forms. According to EDB's records, one enrolled examiner sought, and received, a waiver for 15 OJT and course requirements, nearly half of the 32 OJT and course requirements in the HFE program. When we reviewed the OJT and course waiver applications, we found that they contained written approvals from the direct supervisor and first executive but not from the EDB official. The OJT and course waiver documentation for a second enrolled examiner were approved, even though the required signature from the executive was missing. The documentation for a third enrolled examiner in our sample was missing an EDB signature for one requested OJT waiver.[23] In the other two instances in which a waiver was granted, we found that FHFA approved them in accordance with its controls.

We asked the Agency official responsible for the HFE program and several members of the EDB staff to explain why waivers of program requirements were granted for three enrolled examiners, notwithstanding FHFA's failure to follow its own internal controls. The official explained that, for two of the waiver applications, she provided written approval in late April 2015, after the waivers were granted. Even though this post-hoc approval cures the defects in two enrolled examiners' waiver applications, the documentation for the other enrolled examiner was still missing an executive's signature as of late April 2015.

FHFA records demonstrate that the Agency has waived OJT and course requirements for 33, or one-half, of the 66 enrolled examiners in the HFE program as of March 2015. In light of the findings in our sample, we believe that FHFA lacks reasonable assurance that all of the waivers satisfied the criteria that it established for granting them.

[23] We also found that EDB had not updated its HFE tracking spreadsheet to reflect one enrolled examiner's waivers for two courses.

RECOMMENDATION

FHFA should determine the causes of the shortfalls in the HFE program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of GSE examinations.

OBJECTIVE, SCOPE, AND METHODOLOGY .....

Our overall objective for this Compliance Review was to determine whether FHFA management ensured the effective implementation of the HFE program from August 2013 to March 2015. Our sub-verification objectives were as follows:

- Verify that enrolled examiners are completing required OJT activities,
- Verify that enrolled examiners are completing course requirements, and
- Verify FHFA's compliance with waiver process controls.

To address these objectives, we reviewed key HFE documents, such as program requirement documentation, HFE's tracking spreadsheet, and HFE waiver forms and guidance.

Additionally, we interviewed the Deputy Directors for DER and DBR, the EICs for the Enterprise core teams, a DBR Associate Director, the cross-divisional OJT coordinators for DER and DBR, two HFE enrollees, the Senior Associate Director of the Office of Supervision Policy, the former Acting Director of EDB, and members of the EDB staff.

We tested FHFA's compliance with various controls for the HFE program. Specifically, we reviewed a randomly selected sample of 15 files from the 66 enrollees in the program as of March 6, 2015. The results of our testing on the files in the sample cannot be projected to the population of 66 (such a sample would need to be nearly as large as the population itself given its small size). However, the sample size of 23% of the population is consistent with audit guidance on the selection of samples for small populations. The guidance is to select a sample equal to 10% or more of a population comprised of 52 to 250 items.[24]

We conducted our Compliance Review during the period February to May 2015 under the authority of the Inspector General Act and in accordance with the Quality Standards for Inspection and Evaluation (January 2012), which were promulgated by the Council for the Inspectors General on Integrity and Efficiency.

[24] American Institute of Certified Public Accountants, *Audit Sampling Considerations of Circular A-133 Compliance Audits* (2009).

APPENDIX A .....

FHFA's Comments on FHFA-OIG's Findings and Recommendation

Federal Housing Finance Agency

MEMORANDUM

TO: Richard Parker, Deputy Inspector General for Compliance and Special Projects

FROM: Fred C. Graham, Deputy Director, Division of Bank Regulation
Nina A. Nichols, Deputy Director, Division of Enterprise Regulation

SUBJECT: *FHFA-OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program*

DATE: July 22, 2015

This memorandum transmits the management response of the Federal Housing Finance Agency (FHFA) to the recommendation in the FHFA-OIG draft compliance review (Compliance Review), *FHFA-OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program.* The Compliance Review discusses FHFA's implementation of its Housing Finance Examiner (HFE) commission program during the period August 2013 to March 2015.

Recommendation:

FHFA should determine the causes of the shortfalls in the HFE program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of GSE examinations.

Management Response:

FHFA agrees with the recommendation and will take the actions described below to address shortfalls noted in the Compliance Review.

1. To assist program participants in tracking progress toward their HFE commission curriculum and on-the-job training (OJT) requirements, DER will enhance existing recordkeeping and communication mechanisms so that the Examiner Development Branch (EDB) periodically communicates to participating examiners and their managers EDB's record of the remaining program requirements for each examiner. Procedures will be established by December 15, 2015.

2. To promote timely, documented progress toward participant completion of program requirements, DER and DBR will enhance program planning practices so that:
    a. each examiner enrolled in the program will submit for manager review an individual HFE commission plan for fulfillment of remaining curriculum and OJT program requirements, with consideration given to any waivers granted;
    b. managers will be responsible for review and approval of individual commission plans;
    c. each individual's commission plan will include a target program completion date within a reasonable time, with consideration of examination objectives and priorities;
    d. the HFE commission plan will be promptly (i.e., within 90 days) documented by the participant and his or her manager, and communicated to an EDB point of contact; and
    e. managers will incorporate HFE commission requirements into performance management discussions.

   Directions to implement the above during 2016 will be issued by December 15, 2015.

3. To better enable effective senior executive oversight of program participants' progress, EDB will, by December 15, 2015, establish information reporting processes to ensure that senior executives in DER and DBR receive periodic updates going forward on the progress of the HFE commission program participants in DER and DBR.

4. To address potential inconsistencies in waiver granting and documentation, EDB will, by October 8, 2015, confirm that all waiver documentation provided through June 30, 2015, has been reviewed to determine whether documentation is complete. EDB will determine by December 15, 2015, whether clarifications should be made to waiver guidance for program participants, managers, second-line supervisors, and EDB.

5. The ongoing importance to the HFE commission program of cross-divisional OJT remains under consideration by DER and DBR. By November 5, 2015, the Deputy Directors of DER and DBR will make a determination on whether and how to continue the requirement for cross-divisional OJT (subject to Agency review). The determination will be based on a written recommendation by an advisory group of senior DER and DBR staff.

cc: John Major, Internal Controls and Audit Follow-up Manager

APPENDIX B.....

FHFA-OIG's Response to FHFA's Comments

On July 22, 2015, FHFA provided comments to a draft of this report. See Appendix A. FHFA agreed with the recommendation. FHFA described a variety of actions it plans to strengthen the administration of the HFE program. These include in summary:

- Enhancing recordkeeping and communication mechanisms so that EDB periodically communicates to enrolled examiners and their managers EDB's record of the remaining program requirements for each examiner (these procedures will be established by December 15, 2015);
- Requiring enrolled examiners to prepare plans for completing HFE program requirements within reasonable timeframes, requiring managers to review and approve these plans, and incorporating HFE commission requirements into performance management discussions (these procedures will be issued by December 15, 2015);
- Establishing by December 15, 2015, enhanced information reporting processes to ensure that DER and DBR senior managers receive periodic updates on enrolled examiners' progress in meeting HFE program requirements;
- Reviewing by October 8, 2015, all waivers issued through June 30, 2015, to ensure the documentation is complete, and determining by December 15, 2015, whether additional waiver guidance is necessary; and
- Determining by November 5, 2015, whether and how to continue the requirement for cross-division OJT.

OIG considered FHFA's full response in finalizing this report. We consider the planned actions sufficient to resolve the recommendation, which will remain open until OIG determines that the agreed upon corrective actions are completed.

FHFA also provided technical comments on the draft report that have been incorporated into the final report as appropriate.

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