

**REDACTED**

Federal Housing Finance Agency  
Office of Inspector General



**FHFA's Failure to Include the  
Financial Crimes and Model  
Components in its CSS Risk  
Assessment Is Inconsistent with a  
Risk-Based Approach to Supervision**

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

Audit Report • AUD-2021-005 • March 23, 2021



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March 23, 2021

## Executive Summary

The Federal Housing Finance Agency (FHFA) is charged by the Housing and Economic Recovery Act of 2008 with the supervision of Fannie Mae and Freddie Mac (together, the Enterprises), any affiliate of the Enterprises, and the Federal Home Loan Banks (collectively, the regulated entities). Its mission as a federal financial regulator includes ensuring the safety and soundness of its regulated entities so that they serve as a reliable source of liquidity and funding for housing finance and community investment. FHFA has also served as conservator of the Enterprises since 2008.

In 2012, FHFA directed the Enterprises to build a Common Securitization Platform (CSP) to replace their separate “back-office” systems and to issue a single mortgage-backed security. In 2013, FHFA directed the Enterprises to establish and fund a joint venture, Common Securitization Solutions, LLC (CSS), to develop and operate the CSP. As an affiliated entity of the Enterprises, CSS is subject to FHFA’s supervision. On June 3, 2019, CSS began issuing a single mortgage-backed security for both Enterprises, known as the Uniform Mortgage-Backed Security (UMBS).

FHFA maintains that it uses a risk-based approach to supervisory examinations that involves identifying existing and emerging risks, evaluating the overall integrity and effectiveness of the entities’ risk management systems and controls, and assessing compliance with applicable laws and regulations. Within FHFA, the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises and CSS.

According to FHFA, risk assessments provide the foundation for determining the examination activities to be conducted and are a key component of the supervisory work executed by DER. Each risk assessment is expected to identify potential areas of supervisory focus for examination activities to inform DER’s risk-based examination plans. For the Enterprises, the risk assessment contains three risk sections: credit, market, and operational. For CSS, the risk assessment covers just operational risk.

We performed this audit to determine whether FHFA developed operational risk assessments for CSS in 2019 and 2020 in accordance with its requirements.

We found that DER has not followed FHFA’s requirements for risk assessments for CSS in 2019 and 2020. For 2019, DER drafted an operational risk assessment for CSS but never finalized it, in contravention of existing requirements. For 2020, DER’s operational risk assessment for CSS was incomplete because it did not contain an assessment of two required



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components of operational risk – Financial Crimes and Model – applicable to CSS operations. In our view, DER’s decision to exclude these two required components in the 2020 CSS operational risk assessment is inconsistent with a risk-based approach to supervision.

To remediate the shortcomings found in this audit, we make two recommendations. In a written management response, FHFA agreed with the recommendations.

This report was prepared by Tara Lewis, Audit Director; Pamela L. Williams, Auditor-in-Charge; and Brian Maloney, Auditor; with assistance from Abdil Salah, Assistant Inspector General for Audits; and Bob Taylor, Senior Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaoig.gov](http://www.fhfaoig.gov), and [www.oversight.gov](http://www.oversight.gov).

Marla A. Freedman, Senior Audit Executive /s/

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## ABBREVIATIONS .....

AB	Advisory Bulletin
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
Deputy Director	Deputy Director, Division of Enterprise Regulation
DER	Division of Enterprise Regulation
Enterprises	Fannie Mae and Freddie Mac
FHFA	Federal Housing Finance Agency
FinCEN	Financial Crimes Enforcement Network
OFAC	Office of Foreign Assets Control
OGC	Office of General Counsel
OIG	Federal Housing Finance Agency Office of Inspector General
OPB	Operating Procedures Bulletin
Regulated Entities	Fannie Mae, Freddie Mac, any affiliate of Fannie Mae and Freddie Mac, and the Federal Home Loan Banks
UMBS	Uniform Mortgage-Backed Security

## BACKGROUND .....

### Effective Supervision by FHFA Is Vital to Ensure Safety and Soundness of CSS

FHFA maintains that it uses a risk-based approach to supervisory examinations that involves identifying existing and emerging risks, evaluating the overall integrity and effectiveness of the entities' risk management systems and controls, and assessing compliance with applicable laws and regulations. Within FHFA, DER is responsible for supervision of the Enterprises and CSS. The Deputy Director, DER (Deputy Director) is responsible for providing management oversight, direction, and support for all examination activity involving the Enterprises and CSS. Examination activity at CSS is led by a designated DER official (DER Point of Contact for CSS)<sup>1</sup> for communication between DER and CSS, and this official is responsible for the planning, execution, and documentation of examination activities for CSS.

In October 2016, FHFA developed a draft of the Common Securitization Solutions Examination Manual Module to provide guidance for examination activities focused on CSS activities and operations.<sup>2</sup> Among other things, this draft module provides guidance for CSS examination activities related to business continuity planning, operational risk management, information technology risk management, information security management, third-party relationship management, Bank Secrecy Act/Anti-Money Laundering, and adherence to various FHFA Advisory Bulletins (AB) such as *Model Risk Management Guidance* (AB 2013-07) and *Fraud Risk Management* (AB 2015-07).

In its November 2016 CSS Supervision Framework memorandum, DER directed that CSS examination planning, performance, and documentation should follow existing DER procedures. DER's CSS Supervision Framework was updated in February 2020 (as a result of a prior OIG audit report recommendation).<sup>3</sup> It provides that DER's supervisory framework for the Enterprises applies to CSS, including, among other things, adhering to DER's operating procedures bulletins (OPB). In addition, DER issued an OPB in February 2020, Enterprise Supervision Program, which reiterates that DER will apply the standards outlined in its OPBs, where relevant, to the supervision of CSS.

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<sup>1</sup> During the review period, DER's Supervision Advisor, a senior official, served as the Point of Contact for CSS.

<sup>2</sup> The Common Securitization Solutions Examination Manual Module was marked as "field test." We found that this draft module was used by DER examiners for CSS examination activities during the review period.

<sup>3</sup> See OIG, *FHFA's Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS* (Sept. 17, 2019) (AUD-2019-012) (online [here](#)).

## FHFA's Risk Assessment Requirements

According to FHFA, risk assessments provide the foundation for determining the examination activities to be conducted. A DER OPB, titled Enterprise Supervisory Risk Assessments and issued in June 2019,<sup>4</sup> states that risk assessments are a key component of the supervisory work executed by DER. Each risk assessment is expected to identify potential areas of supervisory focus for examination activities to inform DER's risk-based examination plans. The risk assessments are also intended to describe significant developments affecting business operations and risk exposures, and to document DER's view of the risk profile.

The Enterprise Supervisory Risk Assessments OPB sets forth procedures for the preparation, format, documentation, and approval of DER's annual supervisory risk assessments and includes templates for the assessment of credit, market, and operational risk. For CSS, DER officials told us that they view only the operational risk assessment – the subject of this audit – as applicable to CSS operations.

### ***The Operational Risk Assessment***

Pursuant to DER's OPB, an operational risk assessment requires examiners to assess the vulnerability of information systems, operational processes, and internal controls, organized in nine components: (1) Single-Family Business Process, (2) Multifamily Business Process, (3) Capital Markets Business Process, (4) Information Technology, (5) Information Security, (6) Business Resiliency, (7) Third-Party Relationships, (8) Financial Crimes, and (9) Model. According to the OPB, for each of the nine components, the operational risk assessment must include risk levels and supporting descriptions and summaries for four elements:

- **Inherent Risk.** Inherent risks are those internal or external risks to which an Enterprise or CSS is exposed, knowingly or unknowingly, as a result of the business activities in which it engages, and the external environment in which the activities take place. Examiners assign a level for inherent risk of *low*, *moderate*, or *high*.
- **Quality of Risk Management.** Risk management practices and controls cover four elements: (a) board and senior management oversight; (b) policies, procedures, and limits; (c) risk monitoring and management information systems; and (d) internal controls. Examiners assign a level for quality of risk management of *strong*, *satisfactory*, *insufficient*, or *weak*.

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<sup>4</sup> This OPB reissued without content change in February 2020.

- **Residual Risk.** Residual risk is the degree by which the quality of risk management mitigates the level of inherent risk. Examiners assign a level for residual risk of *low*, *moderate*, or *high*.
- **Direction of Residual Risk.** Direction of residual risk involves a prospective assessment of the probable movement in the residual risk over the next 12 months. Examiners assign a level for direction of residual risk of *decreasing*, *stable*, or *increasing*.

According to DER officials, DER holds the view that only five of the nine components are applicable for CSS operational risk assessments: Single-Family Business Process, Information Technology, Information Security, Business Resiliency, and Third-Party Relationships.

The OPB also directs that the CSS risk assessment should be approved by the DER Point of Contact for CSS and the Deputy Director by October 31 (annually).

## FACTS AND ANALYSIS .....

According to FHFA, risk assessments provide the foundation for the risk-based examination activities conducted annually. We performed this audit to determine whether DER, charged with supervision over CSS, developed risk assessments for CSS in 2019 and 2020, in accordance with established requirements.

### FHFA Did Not Finalize a Risk Assessment for CSS in 2019 in Contravention of Existing Requirements

DER prepared a draft operational risk assessment for CSS in 2019 (in support of the 2020 examination plan) but did not finalize it. According to DER officials, there was no existing DER requirement for an operational risk assessment for CSS in 2019. Further, the DER Point of Contact for CSS asserted that prior insufficient supervisory work by DER on CSS created a knowledge gap related to governance and prevented DER from completing an operational risk assessment in 2019.

We do not credit these explanations for two reasons. First, DER issued a CSS Supervision Framework in November 2016 directing that CSS examination planning, performance, and documentation follow existing DER procedures, including adherence to DER OPBs (which include risk assessments).

Second, our prior audit and our review of DER documents during this audit found that DER had performed a number of CSS examination activities, calling into significant question the

assertion of knowledge gaps purportedly caused by insufficient supervisory work for CSS. DER records show that DER completed two targeted examinations – one in April 2017 and one in April 2019.<sup>5</sup> DER also completed six ongoing monitoring activities at CSS between 2017 and July 2019, which was before the 2019 risk assessment was required to be completed.<sup>6</sup>

In a technical comment to a draft of this report, DER asserted that the completed targeted examinations and ongoing monitoring activities that it performed since 2017 were focused on specific areas and, taken together, were insufficient to prepare a risk assessment for CSS in 2019. According to DER, these examination activities mainly focused on information technology and cybersecurity; as such, DER claimed they did not provide examiners with sufficient knowledge on CSS governance to prepare an operational risk assessment.

The examination record does not support the assertion DER made in its technical comment. We found that the objective of the April 2017 targeted examination was to perform “baseline reviews” of certain aspects of CSS’ governance and operations. Further, we found that three of the six ongoing monitoring activities (one in 2017 and two in 2018) encompassed governance. The scope of one activity included monitoring of the governance and operations functions of CSS. The objective of the second activity was to monitor CSS’ governance, risk management, and operations activities as they continue to develop and maintain the CSP. The objective of the third activity included, among other things, monitoring aspects of CSS’ Internal Audit function. We also found that DER completed an operational risk assessment of CSS in 2017 that provided information related to CSS’ governance of operational risk. In that risk assessment, DER stated that CSS’ governance and enterprise risk management

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<sup>5</sup> For a more detailed discussion of the 2016 through 2019 examination activities performed by DER for CSS, see OIG, *FHFA’s Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS* (Sept. 17, 2019) (AUD-2019-012) (online [here](#)).

<sup>6</sup> Examiners conduct ongoing monitoring to analyze information and to identify a regulated entity’s practices and changes in a regulated entity’s risk profile that may warrant supervisory attention. Ongoing monitoring is also used to determine the status of a regulated entity’s compliance with supervisory guidance, remediation of matters requiring attention (a type of adverse examination finding), and conservatorship directives. Targeted examinations complement ongoing monitoring activities in that they enable examiners to conduct “a deep or comprehensive assessment” of the areas found to be of high importance or risk.

frameworks, and its operational documentation, policies, and procedures, were sufficient to support business processes of the CSP as well as internal corporate functions.<sup>7</sup>

## **FHFA's 2020 CSS Operational Risk Assessment Did Not Address Required Risks nor Fully Conform with Approval Requirements**

We performed testing to determine whether DER prepared and approved its 2020 CSS operational risk assessment in accordance with requirements. To conduct the testing, we reviewed the content of the 2020 CSS operational risk assessment (including the descriptions and assigned risk levels) against the published requirements. We also reviewed the risk assessment for requisite approvals and timeliness.

### ***Testing to Determine Whether DER Prepared the 2020 CSS Operational Risk Assessment in Accordance with Requirements***

DER's OPB requires an assessment of the four elements – inherent risk, quality of risk management, residual risk, and direction of residual risk – for each of the nine components of operational risk, and an assignment of risk level for each element. We reviewed whether the 2020 CSS operational risk assessment examined the four elements of each of the nine components, and assigned both a risk level for each component under each element and a composite risk level for each element.

#### Result of Test

We found that the 2020 CSS operational risk assessment did not contain an assessment of the four elements for four required components in the OPB: Multifamily Business Process, Capital Markets Business Process, Financial Crimes, and Model. The OPB requires these four components to be included in the annual risk assessment, where relevant.

According to DER officials, four components – Multifamily Business Process, Capital Markets Business Process, Financial Crimes, and Model – are not applicable because those risk areas do not apply to CSS business operations.

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<sup>7</sup> Notwithstanding the body of CSS examination work between 2017 and 2019, DER's asserted knowledge gap about CSS governance risk is also surprising in light of: (1) CSS was established **at FHFA's direction** (emphasis added) in 2013 to develop the CSP and (2) the projection by FHFA, as of February 2019, that the development of the CSP and integration by the Enterprises would cost \$2.13 billion. For additional discussion of FHFA's oversight of the CSP, see OIG, *Special Report on the Common Securitization Platform: FHFA Lacked Transparency and Exercised Inadequate Oversight over a \$2.13 Billion, Seven-Year Project* (Mar. 29, 2019) (OIG-2019-005) (online [here](#)).

We recognize that two of these components, Multifamily Business Process and Capital Markets Business Process, are not applicable to CSS operational risk assessments because (1) CSS was established to support the issuance of a single mortgage-backed security for residential mortgages and (2) the capital markets business process refers to the Enterprises' funding availability for the purchase and sale of loans pooled into mortgage-backed securities.

However, DER's explanation to justify the exclusion of two other components – Financial Crimes and Model – cannot be reconciled with other information we obtained during the audit.

With respect to the Financial Crimes component, DER officials explained that DER understood that CSS is not a separate legal entity so the financial crimes laws do not apply and no risk assessment of this component was warranted. Assuming that understanding is held by DER, it is incorrect. Five years ago, FHFA's Office of General Counsel (OGC) rendered a legal opinion in which it concluded that CSS became a legally recognized entity on October 7, 2013, when it was established as a limited liability company.<sup>8</sup> The CSS Examination Manual Module references an OGC opinion regarding Anti-Money Laundering and CSS: the module sets forth FHFA's expectation that CSS will have an Anti-Money Laundering program consistent with its level of risk, as contemplated by the Financial Crimes Enforcement Network (FinCEN) rule.<sup>9</sup> Additionally, DER's Financial Crimes Risk Management Enterprise Examination Module states that "CSS is subject to the FinCEN Rule and FHFA Fraud Regulation as an affiliate of both Fannie Mae and Freddie Mae. CSS is also subject to OFAC regulations." Because CSS has long been considered a separate legal entity with a risk of exposure to financial crimes and because DER's OPB requires this component to be included in annual CSS operational risk assessments, DER's justification for excluding this component lacks validity.

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<sup>8</sup> FHFA, OGC Opinion Memorandum – "Questions Regarding Supervision of Common Securitization Solutions, LLC" (Dec. 21, 2015).

<sup>9</sup> The Bank Secrecy Act authorizes the Department of the Treasury to require financial institutions to keep records and file reports that support financial investigations and legal proceedings. Authority has been delegated to FinCEN, a bureau of the Department of the Treasury, to implement, administer, and enforce compliance with the Bank Secrecy Act and its implementing regulations.

On February 25, 2014, FinCEN published a final rule (FinCEN Rule) that defines the regulated entities (i.e., Fannie Mae, Freddie Mac, and CSS) as financial institutions and requires them to establish anti-money laundering programs.

The description of financial crimes, as defined in the Enterprise Supervisory Risk Assessments OPB, includes fraud, Bank Secrecy Act/Anti-Money Laundering, and Office of Foreign Assets Control (OFAC) sanctions risk. Further, the CSS Examination Manual Module includes suggested examination work steps for tests that cover fraud, Bank Secrecy Act/Anti-Money Laundering laws, and OFAC sanctions risk.

With respect to the Model component, another required component in the OPB, DER officials contended that this component was excluded from the risk assessment because the work performed by CSS did not meet the definition of Model Risk. However, DER’s Enterprise Supervisory Risk Assessments OPB defines Model Risk to include a wide variety of business activities in which models may be used, such as cash flow analysis. DER’s guidance also counsels: “Failure to address model risk or, at minimum, to understand its potential effects on the measurement of risk, has the potential to result in poor business decisions, particularly in volatile market environments.” The 2020 CSS operational risk assessment states that the “CSS Modeling group only prepares UMBS cash flows for investors, typically 10-15 UMBS cashflow models” each month—the very activity defined in this OPB.

Further, the CSS Examination Manual Module states that DER examiners should test whether CSS adheres to the standards in certain ABs and other guidance documents to the extent that the guidance has practical applicability to CSS activities or operations, including AB 2013-07, *Model Risk Management Guidance*. That expectation, coupled with the CSS modeling activities (described above), strongly suggests that DER recognizes that CSS engages in activities that generate Model Risk, and therefore the Model component should be included in CSS’ risk assessment.

Absent any changes to CSS’ structure or activities, DER officials reported to us that DER has no plans to [REDACTED] in future CSS operational risk assessments. That intention is at odds with the established requirements in the applicable OPB.

***Testing to Determine Whether the Designated DER Personnel Timely Prepared and Approved the Operational Risk Assessment for CSS in 2020***

DER’s OPB directs that the annual operational risk assessment for CSS be approved no later than October 31 each year. We tested whether the designated DER personnel timely prepared and approved the 2020 CSS operational risk assessment.

Result of Test

We found an exception with this OPB requirement for the 2020 CSS operational risk assessment. The final approval by the requisite DER officials of the operational risk assessment was November 9, 2020, nine days later than the required date of October 31, 2020.

## FINDINGS .....

- FHFA did not finalize a risk assessment for CSS in 2019, in contravention of existing requirements.
- FHFA’s operational risk assessment for CSS in 2020 was incomplete because it did not address two required components of operational risk – Financial Crimes and Model – that are applicable to CSS business operations.
- FHFA’s final approval by requisite DER officials of the operational risk assessment for CSS in 2020 did not fully conform with approval requirements; however, the exception – the risk assessment was approved nine days late – is not material.

## CONCLUSIONS .....

In 2019, FHFA did not finalize its risk assessment for CSS, in contravention of DER requirements, and its explanation for this shortfall lacked plausibility. More importantly, we found that the 2020 CSS risk assessment was incomplete because it did not include two required components – Financial Crimes and Model. By not including the Financial Crimes component in the operational risk assessment, FHFA cannot be assured that CSS has established an effective anti-money laundering program to help prevent fraud and other financial crimes. So too, the lack of a Model component in the operational risk assessment deprives FHFA of insight into whether CSS is engaging in sound risk modeling practices. In our view, DER’s decision to exclude these two required components in the 2020 CSS operational risk assessment is inconsistent with a risk-based approach to supervision.

## RECOMMENDATIONS .....

We recommend that FHFA:

1. Going forward, ensure a risk assessment for CSS is prepared and approved annually in accordance with DER requirements.
2. Include all required components, including the Financial Crimes and Model components, when preparing the annual risk assessment for CSS.

## FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA an opportunity to respond to a draft of this audit report. FHFA provided technical comments on the draft report and those comments were considered in finalizing this report. FHFA also provided a management response, which is included in the Appendix of this report. In its management response, FHFA stated that it will continue to subject CSS to the same requirements as the Enterprises when preparing and approving the annual risk assessment. FHFA also stated that it will prepare and approve the annual risk assessment of CSS for all risk areas, including a documented explanation of areas with negligible risk. According to FHFA, these corrective actions will be taken on or before December 31, 2021.<sup>10</sup> With the understanding that FHFA will prepare the risk assessment for CSS, going forward, in accordance with requirements, we consider FHFA’s planned corrective actions responsive to our recommendations.

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

We performed this audit to determine whether FHFA developed risk assessments for CSS in 2019 and 2020 in accordance with its requirements.

To accomplish our objective, we:

- Reviewed FHFA’s guidance in effect during our review period, including FHFA’s *Examination Manual* (December 2013); FHFA’s Examination Manual Modules titled Common Securitization Solutions (October 2016); Bank Secrecy Act/Anti-Money Laundering Program (June 2015); Office of Foreign Assets Control Compliance (June 2015); and Fraud Overview and Fraud Risk Management (December 2016); FHFA’s ABs titled *Model Risk Management Guidance* (AB 2013-07) (November 2013) and *Fraud Risk Management* (AB 2015-07) (September 2015); DER’s Enterprise Examination Manual (March 2020); DER’s Enterprise Examination Manual Module titled Financial Crimes Risk Management (March 2020); DER’s CSS Supervision Framework (November 2016 and February 2020); DER OPBs titled Examination Planning Process (April 2019 and February 2020); Enterprise Supervisory Risk Assessments (June 2019 and February 2020); Enterprise Supervision Program (February 2020); Document Management Guidance (July 2019); Document Management (February 2020); DER’s File Plans (June 2019 and June 2020); and

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<sup>10</sup> Subsequent to receiving the management response, a DER official acknowledged that the deadline for the risk assessment for CSS is October 31 of each year and he stated that FHFA plans to meet that deadline.

OGC’s Opinion Memorandum – “Questions Regarding Supervision of Common Securitization Solutions, LLC” (December 2015).

- Performed a search of DER’s electronic document repository to obtain the operational risk assessments for CSS in 2019 and 2020;<sup>11</sup>
- Reviewed and analyzed the content of the 2020 operational risk assessment for CSS prepared by DER to determine whether the risk assessment examined the four elements (inherent risk, quality of risk management, residual risk, and direction of residual risk) of each of the nine components, and assigned both a risk level for each component under each element and a composite risk level for each element in accordance with requirements;
- Reviewed DER workflow records related to the 2020 operational risk assessment for CSS to determine whether the designated DER personnel prepared and approved the risk assessment and whether the timeline for approval was met; and
- Interviewed FHFA officials regarding: (1) the applicable guidelines for the preparation, approval, and storage of the risk assessments for CSS in 2019 and 2020; (2) the history of the development of risk assessments for CSS since 2015; and (3) the preparation, approval, and/or storage of the risk assessments for CSS in 2019 and 2020.

We conducted this performance audit from October 2020 to March 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>11</sup> As discussed in the Facts and Analysis section of this report, DER did not finalize and approve a CSS risk assessment in 2019.

## APPENDIX: FHFA MANAGEMENT RESPONSE.....



# Federal Housing Finance Agency

### MEMORANDUM

TO: Marla A. Freedman, Senior Audit Executive, Office of Inspector General (OIG)

FROM: Paul J. Miller, Deputy Director, Division of Enterprise Regulation (DER) *PJM*

SUBJECT: Draft Audit Report: *FHFA's Failure to Include the Financial Crimes and Model Risk Components in its CSS Risk Assessment Is Inconsistent with a Risk-Based Approach to Supervision*

DATE: March 10, 2021

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Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report referenced above (Report). As the Report accurately states, risk assessments provide the foundation for determining the examination activities to be conducted and are a key component of the supervisory work executed by DER. We will continue to enhance the efficiency and efficacy of our supervisory program, including the risk assessment process. The draft Report makes two recommendations:

**Recommendation 1:** *OIG recommends that FHFA going forward, ensure a risk assessment for CSS is prepared and approved annually in accordance with DER requirements.*

**Recommendation 2:** *OIG recommends that FHFA include all required components, including the Financial Crimes and Model components, when preparing the annual risk assessment for CSS.*

**Management Response:** FHFA agrees with these recommendations. FHFA will continue to subject CSS to the same requirements as the Enterprises when preparing and approving the annual risk assessment. By December 31, 2021, FHFA will prepare and approve the annual risk assessment of CSS for all risk areas, including a documented explanation of areas with negligible risk.

We would like to thank the OIG staff that worked with the Agency during this audit. If you have any questions related to our response, please do not hesitate to contact Eric Wilson.

cc: Chris Bosland  
Kate Fulton  
Scott Valentin  
Eric Wilson  
John Major

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