



FHFA Did Not Always Follow its Procedures When Reviewing the Enterprises' Draft SEC Filings, But Plans to Take Corrective Action



AUD-2022-007

May 12, 2022

Executive Summary

The Federal Housing Finance Agency (FHFA or Agency) is charged by the Housing and Economic Recovery Act of 2008 with the supervision of Fannie Mae and Freddie Mac (together, the Enterprises); Common Securitization Solutions, LLC, an affiliate of the Enterprises; and the Federal Home Loan Banks (collectively, the regulated entities). FHFA's mission is to ensure 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 served as conservator of the Enterprises since 2008.

FHFA states that, as conservator, the Agency has the powers of the management, boards, and shareholders of the Enterprises. While FHFA has broad authority, both Enterprises continue to operate as business corporations and are governed by Securities and Exchange Commission (SEC) regulations. Because of the nature of the conservatorship, beginning in 2008 and continuing in 2021, both Enterprises identified and disclosed a material weakness in internal control over financial reporting in their quarterly and annual reports filed with the SEC. Specifically, both Enterprises reported that because of the nature of the conservatorship, which places them under the "control" of FHFA, some of the information that they may need to meet disclosure obligations may be solely within the knowledge of FHFA.

To help mitigate this situation, the Enterprises, under FHFA's direction, provide draft versions of their quarterly SEC filings to FHFA for review and comment prior to submission to the SEC. Once the reviews are complete and any Agency comments are resolved, the Director of FHFA sends an "acknowledgment" letter to each Enterprise expressing "no objection" to submitting the filings to the SEC (FHFA's Acting Director was appointed on June 23, 2021). The Director's acknowledgment letters communicate that, to FHFA's knowledge, "FHFA did not identify any untrue statements of material facts or omissions of material facts that would be necessary to make the [SEC filings] not misleading."

FHFA's Office of the Chief Accountant (OCA), within FHFA's Division of Accounting and Financial Standards (DAFS), coordinates FHFA's internal reviews of the Enterprises' quarterly draft SEC filings and makes the recommendation in a staff analysis memorandum to the Director whether to approve the acknowledgment letters to the Enterprises, which allows the Enterprises to complete their filings with the SEC. OCA's written procedures require that OCA distribute the draft SEC filings to "key reviewers" (i.e., selected senior executives within FHFA) and other personnel (i.e., staff of key reviewers and subject matter experts) in FHFA's divisions and offices, obtain and resolve comments by them, and instruct the key reviewers to sign a



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sub-certification memorandum confirming their reviews of the draft SEC filings have been performed. OCA's written procedures also set forth that the sub-certification memoranda are integral to OCA's recommendation to the Director.

We conducted this audit to determine if FHFA followed its procedures when reviewing the Enterprises' draft SEC filings for the second quarter 2021 (review period). Because FHFA's key reviewer sub-certification process is an integral part of FHFA's review of the Enterprises' draft SEC filings, and the Director relies on this process in making the decision to approve the acknowledgment letters to the Enterprises, we reviewed the key reviewer sub-certification process and performed tests to determine if the process was followed and implemented as prescribed in OCA's Procedures Document. For the second quarter 2021, the Enterprises provided their draft SEC filings to FHFA in July 2021, and OCA identified 12 officials as the key reviewers for each Enterprise.

We found that 5 of the 12 key reviewers (42 percent) of Fannie Mae's draft SEC filing and 6 of the 12 key reviewers (50 percent) of Freddie Mac's draft SEC filing did not sign sub-certification memoranda in support of their reviews of these draft SEC filings prior to the Director's approval of the acknowledgment letters to the Enterprises. Further, when signed, the sub-certification memoranda did not always include all of the sections of the Enterprises' draft SEC filings the key reviewers were to review. Nevertheless, OCA recommended approval of the Director's acknowledgment letters to the Enterprises even though not all key reviewers signed sub-certification memoranda in support of FHFA's review of the Enterprises' draft SEC filings.

FHFA's inconsistent approach to the sub-certification process stemmed from FHFA not establishing and maintaining comprehensive policies and procedures to guide the review of the Enterprises' draft SEC filings. As a result, there is an increased risk that the objectives of the review, to identify untrue statements of material facts or omissions of material facts that would make the quarterly SEC filings misleading, may not be achieved.

We make two recommendations in this report. In a written management response, FHFA agreed with the recommendations.

This report was prepared by Tara Lewis, Audit Director; Brian Maloney, Auditor-in-Charge; and Pamela L. Williams, Auditor; and with assistance from Abdil Salah, Assistant Inspector General for Audits; Marla A. Freedman, Senior Policy Advisor; and Bob Taylor, Senior Advisor. We appreciate the cooperation of FHFA staff with our audit.



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This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaog.gov, and www.oversight.gov.

James Hodge, Deputy Inspector General for Audits /s/

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ABBREVIATIONS

DAFS	Division of Accounting and Financial Standards
DCOR	Division of Conservatorship Oversight and Readiness
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
Green Book	<i>Standards for Internal Control in the Federal Government</i>
OCA	Office of the Chief Accountant
Regulated Entities	Fannie Mae, Freddie Mac, any affiliate of Fannie Mae and Freddie Mac, and the Federal Home Loan Banks
SEC	Securities and Exchange Commission

BACKGROUND.....

Since Placed in Conservatorship, the Enterprises Have Reported a Material Weakness in Internal Control Over Financial Reporting in Their Respective SEC Filings

Because of the nature of the conservatorship, beginning in 2008 and continuing in 2021,¹ both Enterprises identified and disclosed a material weakness² in internal control over financial reporting in their Form 10-Q and Form 10-K reports filed with the SEC.³ Specifically, both Enterprises reported that their respective disclosure controls and procedures did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet their disclosure obligations under the federal securities laws. As Fannie Mae explains in its Form 10-Q report for the second quarter 2021:

We have been under the conservatorship of FHFA since September 6, 2008. Under the [Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, including by the Housing and Economic Recovery Act of 2008 (together, the GSE Act)], FHFA is an independent agency that currently functions as both our conservator and our regulator with respect to our safety, soundness and mission. Because of the nature of the conservatorship under the GSE Act, which places us under the “control” of FHFA (as that term is defined by securities laws), some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Although we and FHFA attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as a disclosure controls and procedures policy of a typical reporting company, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures.

¹ See [Fannie Mae's second quarter 2021 Form 10-Q](#), p.133-134, and [Freddie Mac's second quarter 2021 Form 10-Q](#), p.144.

² The Public Company Accounting Oversight Board’s Auditing Standard 2201 defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

³ Forms 10-Q and 10-K offer a detailed picture of a public company’s business, the risks it faces, and the operating and financial results for the fiscal quarter or year. [Form 10-Q](#) is a report filed by public companies with the SEC after the first, second, and third fiscal quarter; [Form 10-K](#) is an annual report filed with the SEC after the fourth fiscal quarter.

As both our regulator and our conservator under the GSE Act, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to Fannie Mae, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible.⁴

FHFA Reviews the Enterprises' Draft SEC Filings

According to FHFA and the Enterprises, to help mitigate the Enterprises' material weakness in internal control over financial reporting, the Enterprises, under FHFA's direction, provide draft versions of their quarterly SEC filings to FHFA for review and comment prior to submission to the SEC.⁵ OCA, within FHFA's DAFS, coordinates these reviews. According to OCA's Procedures Document, *Review of SEC Form 10-Q/10-K and related Form 8-K materials (Quarterly Press Releases and Financial Supplements)*, in effect during the review period for this audit, the objectives of FHFA's review are, in part, to: identify any untrue statements of material facts or omissions of material facts that would make the quarterly SEC filings misleading; identify any inaccurate portrayals of FHFA in its role as regulator and conservator; reduce reputational and legal risks to FHFA; and provide a recommendation to the Director or their designee to approve the quarterly acknowledgment letters to the Enterprises in order to complete the submission process to the SEC.⁶

For the second quarter 2021 Form 10-Q filings, the Director's acknowledgment letters communicated to the Enterprises that, to "FHFA's knowledge, and without independent investigation, FHFA did not identify any untrue statements of material facts or omissions of material facts that would be necessary to make the Form 10-Q and press release not misleading." The letters also confirmed that (1) FHFA has "no objection" to the Enterprises filing their documents with the SEC and (2) FHFA reviewed the management representation letters that the Enterprises were to deliver to their respective auditors and that "while the

⁴ In addition to filing quarterly reports on Form 10-Q and annual reports on Form 10-K, public companies must report certain material corporate events on a more current basis. [Form 8-K](#) is the "current report" companies must file with the SEC to announce major events that shareholders should know about such as certain material write-downs of assets.

⁵ Relevant SEC filings include, among other things, Form 10-Q or Form 10-K, the related press release to accompany the filing of the financial reports, and the management representation letters that the Enterprises' management deliver to their auditor (collectively in this report referred to as "draft SEC filings").

⁶ The Acting Director (appointed as of June 23, 2021) was responsible for FHFA's review of the Enterprises' draft Form 10-Q SEC filings for the second quarter of 2021. When applicable, our use of the term "Director" throughout this report refers to the Acting Director.

representations in [those letters] are those of management, FHFA is not currently aware of any bases upon which to disagree with those representations.”⁷

As an Integral Part of the Review Process, Key Reviewers Certify Their Division’s Review of the Enterprises’ Draft SEC Filings

According to OCA’s Procedures Document, OCA coordinates FHFA’s review of the Enterprises’ draft SEC filings.⁸ As described below, pursuant to its procedures, OCA notifies key reviewers (i.e., selected senior executives within FHFA) and other personnel (i.e., staff of key reviewers and subject matter experts), of review expectations and timelines to submit comments.⁹ Next, OCA receives and addresses the reviewers’ comments within FHFA and manages the resolution of the comments with each Enterprise. OCA’s Procedures Document also states that OCA will, if necessary, conduct staff training on policy or procedure changes.

According to the Procedures Document, the sub-certification process involves key reviewers representing FHFA’s divisions and offices. Specifically, consistent with SEC Sarbanes-Oxley 302 Certification best practices,¹⁰ key reviewers sign written sub-certifications of their reviews of sections of the Enterprises’ draft Form 10-Q/10-K and press release.¹¹ For the

⁷ A management representation letter is a written statement by management provided to its auditor to confirm certain matters or to support other audit evidence.

⁸ According to the staff analysis memorandum for the second quarter 2021, OCA coordinates FHFA’s review of the Enterprises’ draft SEC filings on behalf of FHFA’s Division of Conservatorship Oversight and Readiness (DCOR). DCOR assists the Director in carrying out the responsibilities as conservator. During the period that is the scope of our audit, DCOR was called Division of Resolutions.

⁹ As part of the quarterly review process, FHFA will receive several draft versions of the quarterly SEC filings. For example, for the second quarter 2021, FHFA received a draft version of Fannie Mae’s Form 10-Q on July 14, 2021, and press release and financial supplement on July 15, 2021, and another draft version of Fannie Mae’s Form 10-Q on July 21, 2021, and press release and financial supplement on July 22, 2021. OCA circulated all versions to the key reviewers and others. The Director’s letter to the Enterprise was dated August 3, 2021.

¹⁰ OCA officials informed us that the citation of Section 302 of the Sarbanes-Oxley Act of 2002 in their Procedures Document was to reference a practice and process that they are following “in spirit.” This Act requires that the Chief Executive Officer and Chief Financial Officer of an organization certify and assert to stakeholders that SEC disclosures, including the financial statements of the company and all supplemental disclosures, are truthful and reliable, and that management has taken appropriate steps to satisfy themselves that the disclosure processes and controls in the company they oversee are capable of consistently producing financial information stakeholders can rely on. As a practice, these officers may obtain sub-certifications from subordinate officers and others in the organization in support of these assertions.

¹¹ The Procedures Document lists key reviewers for selected sections of the Enterprises’ draft SEC filings for review: Executive Summary; Business; Risk Factors; Management Discussion & Analysis; Conservatorship Discussions; Strategic Initiatives; Credit, Market, and Operational Risks; Accounting Policy, Controls and Procedures; Legal and Regulatory Discussions; Economic Discussions; Operating Results and Financial Footnotes; and Press Release.

second quarter 2021 (the review period for our audit), the Procedures Document includes sub-certification responsibilities for 12 key reviewers for each Enterprise.¹²

FACTS AND ANALYSIS

FHFA Did Not Always Follow its Procedures When Reviewing the Enterprises' Draft SEC Filings, But Plans to Take Corrective Action

According to OCA's Procedures Document, FHFA has a quarterly sub-certification process wherein key reviewers perform a review of sections of the Enterprises' draft SEC filings to, in part, identify untrue statements of material facts or omissions of material facts that would make the quarterly SEC filings misleading, and sign memoranda certifying their division's review. The signed memoranda support and permit confirmations provided in the Director's acknowledgment letters to the Enterprises. However, we found that FHFA's key reviewers did not always perform their sub-certification responsibilities of preparing memoranda certifying their division's review of the Enterprises' draft SEC filings and providing reviewer comments. We also found that when signed, the sub-certification memoranda did not always include all of the sections of the Enterprises' draft SEC filings, which the key reviewers are expected to review. Nevertheless, OCA recommended approval of the Director's acknowledgment letters to the Enterprises even though not all key reviewers signed sub-certification memoranda in support of FHFA's review of the Enterprises' draft SEC filings. This occurred because FHFA did not establish and maintain comprehensive policies and procedures to guide the review of the Enterprises' draft SEC filings.¹³ Our finding brings into question the effectiveness of FHFA's key reviewer sub-certification process, which, in turn, may increase the risk that the objectives of the review (i.e., to identify untrue statements of material facts or omissions of material facts that would make the quarterly SEC filings misleading) may not be achieved. To illustrate:

1. Sub-certification memoranda. We found that 5 of the 12 key reviewers (42 percent) of Fannie Mae's draft SEC filing did not sign sub-certification memoranda for their division's review of the Enterprise's draft SEC filing prior to the Director's approval

¹² A typical sub-certification memorandum from a key reviewer states: "Based on information known to the [Division] and without independent investigation, the [Division] did not identify any material untrue statements or omissions of material facts that, to the [Division's] knowledge, would be necessary to make a statement in the [quarterly SEC filings] not misleading."

¹³ *Standards for Internal Control in the Federal Government* (Green Book) state that management should use quality information and communicate that information internally to achieve agency objectives. Within those internal control standards, quality information should also be communicated up through reporting lines to ensure the entity achieves its objectives. Further, management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness.

of the acknowledgment letter to Fannie Mae.¹⁴ In fact, one of these key reviewers did not sign the memorandum until OCA followed-up with the key reviewer so the memorandum could be provided to us in response to our audit. We noted that the memorandum was signed nearly eight weeks after the Director approved the acknowledgment letter to Fannie Mae. Further, we found that OCA did not notify 4 of these 5 key reviewers of the need to sign the memoranda as part of the notification distribution.

Similarly, 6 of 12 key reviewers (50 percent) of Freddie Mac's draft SEC filing did not sign sub-certification memoranda prior to the Director's approval of the acknowledgment letter to Freddie Mac.¹⁵ In this case, 2 of these key reviewers did not sign sub-certification memoranda until five days after the Director approved the acknowledgment letter to Freddie Mac. Further, we found that OCA did not notify 4 of these 6 key reviewers of the need to sign the memoranda as part of the notification distribution.

Finally, we found that when signed, the sub-certification memoranda did not always include all of the sections of the Enterprises' draft SEC filings that the key reviewers were to review. Specifically, DAFS' sub-certification memorandum for both Enterprises did not include the sections of accounting policy, controls and procedures, and regulatory discussions. Also, OCA's sub-certification memorandum for both Enterprises did not include the section of regulatory discussions. Further, the Division of Enterprise Regulation's sub-certification memorandum for Freddie Mac's draft SEC filing did not include the section of credit, market, and operational risks.

2. Reviewer comments. We found that not all of FHFA's key reviewers or their staff provided comments on Fannie Mae's draft SEC filings.¹⁶ Specifically, 2 of 12 key reviewers or their staff did not provide reviewer comments to OCA for Fannie Mae's draft SEC filing.
3. Acknowledgment letters to the Enterprises. We found that OCA recommended approval of the Director's acknowledgment letters to the Enterprises even though not all key reviewers signed sub-certification memoranda in support of FHFA's review of

¹⁴ In the technical comments to a draft of this report, OCA asserted that based on internal OCA memoranda to file dated August 2021, there were 10 key reviewers that were to review each of the Enterprises' draft SEC filings. We do not credit the internal memoranda to file because the documents were not reviewed and approved by management and preceded the issuance of the Procedures Document for the second quarter 2021. Section 12.05 of the Green Book states that if there is a significant change in an entity's process, management should review this process in a timely manner after the change to determine that the control activities are designed and implemented properly.

¹⁵ Ibid.

¹⁶ FHFA provided us with access to an electronic folder titled "GSE Disclosure Review 2Q 2021 (10-Q)" that, according to officials, contained all of the key reviewer comments, along with their staff comments, for the review of the Enterprises' draft SEC filings.

the Enterprises' draft SEC filings.¹⁷ Specifically, OCA prepared a staff analysis memorandum on July 27, 2021, that recommended that the Director approve and transmit the acknowledgment letters to the Enterprises when, as described above, many of FHFA's key reviewers had not performed their responsibilities.¹⁸

OCA officials offered several reasons for these situations. Specifically, OCA officials informed us that the review of the Enterprises' draft SEC filings is performed under a short time frame with quick turnaround deadlines. OCA officials also stated that they were understaffed and have recently hired more people. Additionally, officials informed us that the Procedures Document in effect for the second quarter 2021 was updated to reflect leadership changes at FHFA, but it did not reflect other changes in the review process, such as the number of and selection of key reviewers, as well as the sections they were to review. Officials further noted that they considered a "no response" from key reviewers and their staff to mean that they had no comments on the draft SEC filings. Officials also stated that it was acceptable to receive signed sub-certification memoranda after the Director approved the acknowledgment letters to the Enterprises as long as they ultimately received the signed memoranda from key reviewers.¹⁹ Finally, OCA officials informed us that they were considering the use of a software program in the future to automate some of the steps involved in FHFA's review of the Enterprises' draft SEC filings. OCA officials later clarified that they were exploring the use of a software program to achieve comprehensive tracking of review documentation. Also, on March 30, 2022, OCA officials informed us that they were updating the Procedures Document and made significant changes to incorporate some of the discussions they had with us related to the sub-certification process, which will be formally reflected in the updated Procedures Document in June 2022.

FHFA's inconsistent approach to the sub-certification process stemmed from FHFA not establishing and maintaining comprehensive policies and procedures to guide the review of

¹⁷ We also found that the listing of key reviewers contained in the staff analysis memorandum did not match the listing of key reviewers contained in the Procedures Document.

¹⁸ As part of a presentation on July 9, 2021, to inform FHFA officials from the Office of the Director (among others) of the process FHFA follows to review the Enterprises' draft SEC filings, a slide stated that "Senior executives provide sub-acknowledgment certifications after the review before the Director signs the acknowledgment letters prior to the SEC filings." We also noted that during a July 26, 2021, conservatorship committee meeting discussion about FHFA's review of the Enterprises' second quarter 2021 draft SEC filings, DAFS officials informed the Director that "DAFS will confirm that staff have the necessary documents to support the attestations prior to submitting the Acknowledgment Letters to Director Thompson for signature through [electronic collaboration and clearance]."

¹⁹ As described in this report, key reviewers did not always sign sub-certification memoranda in support of the Director's acknowledgment letters to the Enterprises. Allowing key reviewers to sign sub-certification memoranda after the Director's acknowledgment letters are approved is contrary to FHFA's intended sub-certification process, as presented in OCA's Procedures Document and the certification process provided in Section 302 of the Sarbanes-Oxley Act of 2002, which OCA cited as a best practice.

the Enterprises’ draft SEC filings. Specifically, while FHFA’s review of the draft SEC filings involves multiple divisions and offices within FHFA, we interviewed officials from FHFA’s divisions and offices and found that none, aside from OCA,²⁰ had policies and procedures to perform the review of the Enterprises’ draft SEC filings for the second quarter 2021. Also, OCA’s Procedures Document had gaps, such as procedures and controls to confirm that the listing of key reviewers contained in the Procedures Document was complete and accurate; inform key reviewers of their roles and responsibilities; and follow up with key reviewers who had not signed sub-certification memoranda before making a recommendation to the Director to approve the acknowledgment letters to the Enterprises.

As detailed above, the lack of comprehensive policies and procedures in this space increases the risk that the objectives of FHFA’s review of the Enterprises’ draft SEC filings may not be achieved.

FINDING

FHFA did not always follow its procedures when reviewing the Enterprises’ draft SEC filings, but plans to take corrective action. This occurred because FHFA had not established and maintained comprehensive policies and procedures to guide the review of the Enterprises’ draft SEC filings.

²⁰ OCA’s Procedures Document is focused on the responsibilities of OCA’s staff, including managing agency-wide communication and distribution of the Enterprises’ draft SEC filing documents and summarizing the quarterly review findings and results. OCA’s Procedures Document does not address the specific process the key reviewers outside of OCA are to follow in performing their review of the Enterprises’ draft SEC filings.

CONCLUSION.....

FHFA’s key reviewers did not always perform their sub-certification responsibilities of preparing memoranda certifying their division’s review of the Enterprises’ draft SEC filings and providing reviewer comments. Not all of the key reviewers were notified of the need to sign the sub-certification memoranda as part of the notification distribution. When signed, the sub-certification memoranda did not always include all of the sections of the Enterprises’ draft SEC filings that the key reviewers were to review. Nevertheless, OCA recommended approval of the Director’s acknowledgment letters to the Enterprises even though not all key reviewers signed sub-certification memoranda in support of FHFA’s review of the Enterprises’ draft SEC filings. These situations occurred because FHFA did not establish and maintain comprehensive policies and procedures to guide the review of the Enterprises’ draft SEC filings. As a result, there is an increased risk that the objectives of the review, to identify untrue statements of material facts or omissions of material facts that would make the quarterly SEC filings misleading, may not be achieved.

RECOMMENDATIONS.....

We recommend that the Director, FHFA:

1. Establish and maintain comprehensive policies and procedures to guide the review of the Enterprises’ draft SEC filings to ensure that the sub-certification process is complete and accurate in support of the Director’s acknowledgment letters to the Enterprises.
2. Train all key reviewers and applicable staff on the new/updated policies and procedures for the review of the Enterprises’ draft SEC filings.

FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA management an opportunity to respond to a draft of this audit report. FHFA management provided technical comments on the draft report and those comments were considered in finalizing this report. FHFA management also provided a written management response, which is included as an Appendix to this report.

In its written response to this report, FHFA management stated that the “Report did not identify any material misstatement in either Enterprise’s SEC filings.” Furthermore, FHFA management stated that the “Report noted that the acknowledgment letter process for the

quarter under review met its objectives, as the Agency-wide review was completed, all required documentation and approvals from senior stakeholders were received, and each Enterprise timely filed its Form 10-Q with the SEC.” FHFA’s management also stated that the “Report did, however, identify limited instances in which certain FHFA reviewers did not document the completion of their sub-certification responsibilities in memoranda certifying their division’s review of the Enterprises’ draft SEC filings and providing reviewer comments.”

FHFA’s written management response mischaracterizes the contents of the audit report. While our audit did not include a review of the Enterprises’ draft SEC filings for material misstatements because that is management’s responsibility and was not included as part of our audit objective, as highlighted in the report, we found that FHFA’s key reviewers (42 percent for Fannie Mae and 50 percent for Freddie Mac) did not always perform their sub-certification responsibilities of preparing memoranda certifying their division’s review of the Enterprises’ draft SEC filings and providing reviewer comments. As a result, we concluded that there is an increased risk that the objectives of the review, to identify untrue statements of material facts or omissions of material facts that would make the quarterly SEC filings misleading, may not be achieved.

Nevertheless, in its management response, FHFA agreed with each of our recommendations and included the following planned corrective actions:

1. By January 18, 2023, DAFS will enhance existing OCA policies and procedures for review of the Enterprises’ SEC filings to include guidance for divisions and offices that participate in the Enterprise acknowledgment letter process.
2. By February 22, 2023, DAFS will provide training on the revised policies and procedures to key reviewers.

We consider FHFA’s planned corrective actions responsive to our recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine if FHFA followed its procedures when reviewing the Enterprises' draft SEC filings for the second quarter 2021 (review period).

Regarding the scope of our review period, FHFA received a draft version of Fannie Mae's Form 10-Q on July 14, 2021, and press release and financial supplement on July 15, 2021, and another draft version of Fannie Mae's Form 10-Q on July 21, 2021, and press release and financial supplement on July 22, 2021. In an acknowledgment letter dated August 3, 2021, the Director notified the Enterprise that FHFA had "no objection" to filing the Form 10-Q and press release with the SEC. FHFA received a draft version of Freddie Mac's Form 10-Q on July 15, 2021, and press release and financial supplement on July 13, 2021, and another draft version of Freddie Mac's Form 10-Q, press release, and financial supplement on July 22, 2021. Similarly, in an acknowledgment letter dated July 29, 2021, the Director notified the Enterprise that FHFA had "no objection" to filing the Form 10-Q and press release with the SEC.

To accomplish our objective, we:

- Researched and identified laws, regulations, and guidance relevant to FHFA's review of the Enterprises' draft SEC filings.
- Performed research and reviewed publications on the use of sub-certifications as part of Section 302 of the Sarbanes-Oxley Act of 2002.
- Obtained and reviewed FHFA policies, procedures, and guidance on FHFA's review of the Enterprises' draft SEC filings, including OCA's Procedures Document, *Review of SEC Form 10-Q/10-K and related Form 8-K materials (Quarterly Press Releases and Financial Supplements)*.
- Determined that two components of federal standards for internal control (Green Book) were significant to our objective: control activities and information and communication. We performed tests related to FHFA's key reviewer sub-certification process as prescribed in OCA's Procedures Document.
 - With regard to control activities, and the underlying principle that management establishes policies to designate responsibility for each unit's operational process objectives and related risks, as well as control activity design, implementation, and operating effectiveness, we:

- Compared the listing of key reviewers contained in the Procedures Document with the sub-certification memoranda received by OCA to determine if all key reviewers signed sub-certification memoranda in support of the Director’s acknowledgment letters to the Enterprises.
 - Analyzed comments provided by key reviewers and their staff contained in OCA’s “GSE Disclosure Review 2Q 2021 (10-Q)” folder and compared the information to the listing of 12 key reviewers for each Enterprise contained in the Procedures Document to determine if all key reviewers or their staff provided comments on the Enterprises’ draft SEC filings.
- With regard to information and communication, and the underlying principle that management receives quality information about the entity’s operational processes that flows up the reporting lines from personnel to help management achieve the entity’s objectives, we:
 - Compared the key reviewer comments and sub-certification memoranda that OCA received from the 12 key reviewers for each Enterprise and their staff to OCA’s recommendation to the Director contained in the staff analysis memorandum to determine if OCA received these supporting documents before providing a recommendation to the Director to approve quarterly acknowledgment letters to the Enterprises in order to complete the submission process of its filings to the SEC.
- Conducted interviews with FHFA officials from the following divisions and offices regarding the process they follow for reviewing the Enterprises’ draft SEC filings: the Office of the Director; the Office of the Chief Accountant; the Division of Conservatorship Oversight and Readiness; the Division of Housing Mission and Goals; the Division of Enterprise Regulation; the Office of General Counsel; and the Office of Congressional Affairs and Communications.

We conducted this performance audit between September 2021 and May 2022 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.

APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Abdil Salah, Assistant Inspector General for Audits

FROM: Nina Nichols, Deputy Director
Division of Accounting and Financial Standards

NINA
NICHOLS

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Date: 2022.04.21
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SUBJECT: Draft Audit Report: *FHFA Did Not Always Follow its Procedures When Performing the Review of the Enterprises' Draft SEC Filings, But Plans to Take Corrective Action*

DATE: April 21, 2022

Thank you for the opportunity to review the Office of Inspector General (OIG) draft report referenced above (Report). The objective of the Report was to determine whether FHFA's Office of the Chief Accountant (OCA) within the Division of Accounting and Financial Standards (DAFS) followed its written procedures when reviewing the Enterprises' draft SEC filings for the quarter ending June 30, 2021.

The Report did not identify any material misstatement in either Enterprise's SEC filings. The Report noted that the acknowledgment letter process for the quarter under review met its objectives, as the Agency-wide review was completed, all required documentation and approvals from senior stakeholders were received, and each Enterprise timely filed its Form 10-Q with the SEC. The Report did, however, identify limited instances in which certain FHFA reviewers did not document the completion of their sub-certification responsibilities in memoranda certifying their division's review of the Enterprises' draft SEC filings and providing reviewer comments. The Report makes two recommendations, with which FHFA agrees.

Recommendation 1: *Establish and maintain comprehensive policies and procedures to guide the review of the Enterprises' draft SEC filings to ensure that the sub-certification process is complete and accurate in support of the Director's acknowledgment letters to the Enterprises.*

Management Response: FHFA agrees with this OIG recommendation. By January 18, 2023, DAFS will enhance existing OCA policies and procedures for review of the Enterprises' SEC filings to include guidance for divisions and offices that participate in the Enterprise

acknowledgment letter process. The revised policies and procedures will include a template of procedures that divisions and offices may adopt to guide their reviews of the Enterprises' draft quarterly SEC filings. The revised policies and procedures will also include specific guidance for OCA staff on tracking stakeholder division and office responses to OCA requests for input to the acknowledgment letter process.

Recommendation 2: *Train all key reviewers and applicable staff on the new/updated policies and procedures for the review of the Enterprises' draft SEC filings.*

Management Response: FHFA agrees with this OIG recommendation. By February 22, 2023, DAFS will provide training on the revised policies and procedures to key reviewers. In addition, the revisions will include procedures for training new reviewers, as well as for OCA communication of updates to reviewers when there are substantive changes to the review process or to the division and office guidance and review template.

We appreciate the professionalism and courtesy of the OIG staff who conducted this evaluation. If you have any questions, please feel free to contact Nick Satriano, Principal Associate Director and Chief Accountant, OCA.

cc: Edom Aweke
John Major

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