

Federal Housing Finance Agency
Office of Inspector General



**DBR Conducted Effective Oversight
of the FHLBanks' Management of
Third-Party Provider Risks But Did
Not Fully Document Sampling in
Examination Workpapers**

Audit Report • AUD-2024-004 • March 28, 2024



AUD-2024-004

March 28, 2024

Executive Summary

The 11 Federal Home Loan Banks (FHLBanks) in the FHLBank System rely on third-party providers for a wide range of services. Some of these services are critical to their operations, such as data security and other information technology services. FHLBanks frequently use third-party providers to reduce costs, enhance performance, and obtain access to specific expertise, applications, and systems. Third-party provider relationships expose FHLBanks to financial, operational, legal, compliance, and reputational risks, including risks to an FHLBank's information security and business continuity. Effective risk management of third-party provider relationships is essential to the safe and sound operations of the regulated entities.

The Federal Housing Finance Agency (FHFA) regulates and supervises the FHLBank System and communicated its supervisory expectations for the FHLBanks' management of third-party provider risks in advisory bulletins (ABs) – primarily AB 2018-08, *Oversight of Third-Party Provider Relationships*, and AB 2017-02, *Information Security Management*. The FHFA Director delegated supervision of the FHLBank System to the Deputy Director, Division of Federal Home Loan Bank Regulation (DBR). For each FHLBank, DBR conducts supervisory activities, including an annual examination. DBR's annual examination activities are risk-based and tailored to each institution's risk profile. DBR established minimum frequency guidelines for the performance of various workprograms (i.e., examination procedures) examining the various risk areas of an FHLBank. DBR performs the Third-Party Provider Relationship Management workprogram (TPRM workprogram) at least once every two years.

We conducted this audit to determine whether DBR's oversight was effective for ensuring that the FHLBanks managed third-party provider risks. The scope of this audit covered DBR's supervision of the FHLBanks' management of third-party provider risks during the calendar years of 2020, 2021, and 2022.

We concluded that DBR conducted effective oversight of the FHLBanks' management of third-party provider risks. Specifically, DBR conducted supervisory examination activities that: (a) used examination guidance that was consistent with the applicable advisory bulletins; (b) substantially complied with its workprogram minimum frequency guidelines; (c) assessed the expected components of a third-party provider risk management program at all FHLBanks; (d) assessed the remediation of each of the three third-party related adverse examination findings that we sampled; and (e) prepared examination workpapers that supported DBR's supervisory conclusions on FHLBanks' management of third-party provider risks.



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We found that DBR did not fully document sampling in the examination workpapers as required by FHFA's examination practice guidance. The samples with documentation concerns were a small part of DBR's overall exam work and, therefore, did not affect our conclusion on the effectiveness of DBR's oversight. Noncompliance with the sampling requirements increases the risk that DBR's tests using samples would not produce sufficient evidence to support its examination conclusions or detect concerns in an FHLBank's third-party provider risk management processes.

We made one recommendation in this report to address our finding. In a written management response, FHFA agreed with our recommendation.

This report was prepared by Jim Lisle, Audit Director; April Ellison, Audit Manager; Eleanor Kang, Auditor-in-Charge; and Kobe Wilson, Auditor; with assistance from Abdil Salah, Assistant Inspector General for Audits. 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.fhfaig.gov.

James Hodge, Deputy Inspector General for Audits /s/

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ABBREVIATIONS

AB	Advisory Bulletin
DBR	Division of Federal Home Loan Bank Regulation
EIC	Examiner- in- Charge
EPB	Examination Practices Bulletin
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FHLBank System	Federal Home Loan Bank System
GAO	U.S. Government Accountability Office
MRA	Matter Requiring Attention
OIG	Office of Inspector General
OPB	Operating Procedures Bulletin
TPRM workprogram	Third-Party Provider Relationship Management workprogram

BACKGROUND

FHLBanks' Use of Third-Party Providers and Related Risks

A third-party provider relationship is a business arrangement between an FHLBank and another entity that provides a product or service. FHLBanks rely on third-party providers for a wide range of services. Some of these services are critical to their operations, such as data security and other information technology services.¹ FHLBanks frequently use third-party providers to reduce costs, enhance performance, and obtain access to specific expertise, applications, and systems. Examples include outsourcing for information technology, cloud computing, compliance reviews, data processing, legal counsel, and website development.

Third-party provider relationships expose the FHLBanks to financial, operational, legal, compliance, and reputational risks, including risks to an FHLBank's information security and business continuity. Importantly, the use of third-parties does not relieve the FHLBank's board of directors (board) and management of their respective responsibilities to ensure that their activities are conducted in a safe and sound manner and in compliance with applicable laws, regulations, and sound practices.

FHFA Communicated Supervisory Expectations for the FHLBanks' Management of Third-Party Provider Risks

Effective risk management of third-party provider relationships is essential to the safe and sound operations of the regulated entities. FHFA communicated its supervisory expectations for an FHLBank's management of third-party provider risks in advisory bulletins – primarily AB 2018-08, *Oversight of Third-Party Provider Relationships*,² and AB 2017-02, *Information Security Management*.³

¹ The FHLBanks' fiscal agent, Office of Finance, also engages third-party providers for a wide range of services. Since we have planned future audit work on DBR's oversight of the Office of Finance, DBR's oversight of the Office of Finance's third-party risk management is not included in the scope of this audit.

² See FHFA, Advisory Bulletin 2018-08, [Oversight of Third-Party Provider Relationships](#) (Sept. 28, 2018).

³ See FHFA, Advisory Bulletin 2017-02, [Information Security Management](#) (Sept. 28, 2017).

In AB 2018-08, FHFA established that an FHLBank's board is responsible for oversight of its third-party risk management program and expects each regulated entity to establish and maintain a third-party provider risk management program that includes the following:

- Governance
 - Policies and practices that describe the responsibilities of the board and senior management and establish criteria for the acceptance and monitoring of risks related to third-party provider engagements.
 - Policies, procedures, and internal standards that establish and implement risk management processes that clearly define risk categories for the oversight of third-party provider relationships.
 - Reporting that allows management to make decisions on the FHLBank's third-party risk management program and the board to monitor the program.
- Third-Party Provider Risk Management Life Cycle Phases
 - Risk assessment processes that assess the risks associated with engaging a third-party provider to supply a product or service.
 - Due diligence processes commensurate with the level of risk of the outsourced activity and the complexity of the third-party provider relationship that includes an evaluation of financial, operational, legal, compliance, and reputational risks of engaging the proposed third-party provider.
 - Contracts with a third-party provider that clearly specify the rights and responsibilities of each party and govern how an FHLBank or a third-party provider may terminate the contractual relationship.
 - Ongoing monitoring of the performance of third-party provider relationships commensurate with the level of risk. Management should also ensure that the regulated entity retains sufficient staff with the necessary expertise, authority, and accountability to oversee and monitor the third-party provider relationship.
 - Termination strategies and contingency plans to terminate third-party provider relationships in an efficient manner that minimizes risk to the regulated entity, whether the outsourced product or service is transitioned to another third-party provider, brought in house, or discontinued.

AB 2017-02 provides FHFA guidance on information security management for supporting a safe and sound operational environment and promoting the resilience of the FHLBanks.

Specifically, AB 2017-02 states that the FHLBanks' risk appetite, policies, operational and technological practices, third-party relationship, governance structure, and the level of involvement of the board and senior management should support effective information security management. Similar to AB 2018-08, AB 2017-02 established expectations that each FHLBank use contracts that define the third-parties' responsibilities for security of information, controls, reporting, nondisclosure of data, and incident notification requirements. Furthermore, each FHLBank should define when information security incidents should result in substituting or replacing services provided by third-parties.

DBR Performed Supervisory Activities to Address Third-Party Provider Risks

DBR's Examination Process

DBR conducts annual examinations, periodic visitations, special reviews, and offsite monitoring of each FHLBank. DBR relies on these supervisory activities to reach conclusions on each FHLBank's overall condition and the adequacy of its risk management policies and procedures, compliance, and controls.

To complete the annual examination, supervision staff use workprograms that describe the examination scope of the FHLBank's operations and provide a framework to develop the bases for examination conclusions and ratings.⁴ DBR established minimum frequency guidelines for the performance of individual workprograms based upon risk in its DBR Operating Procedures Bulletin (OPB), *Workprogram Minimum Frequency Guidelines*. Workprogram minimum frequencies range from annual to quadrennial based on "the volume or complexity of an activity or function, as well as the activity or function's relevance in developing examination conclusions and assigning examination ratings." There are approximately 30 workprogram areas for the FHLBanks, one of which is the TPRM workprogram.

DBR executes its supervisory activities in accordance with FHFA's examination guidance, including the *FHFA Examination Manual* and supplemental guidance, as well as the OPBs. The DBR OPB, *Federal Home Loan Bank Examination Workpaper Standards*, sets guidelines regarding the standards and quality of DBR examination workpapers. At the conclusion of an examination, DBR issues an annual report of examination to the board of each of the FHLBanks. The report of examination communicates substantive examination conclusions,

⁴ A workprogram contains the examination procedures that an examiner performs to meet the examination scope objectives and to document the basis for conclusions on the level of risk and quality of risk management pertaining to the area examined.

principal findings, including all matters requiring attention (MRAs),⁵ and the composite and component CAMELSO ratings for each entity.⁶

Third-Party Provider Relationship Management Workprogram

DBR's OPB, *Workprogram Minimum Frequency Guidelines*, states that the TPRM workprogram has a biennial minimum frequency.⁷ FHFA's Third-Party Relationship Management examination module (September 2022) provides guidance to DBR examiners on developing the examination scope and selecting examination procedures to assess whether the FHLBank's risk management framework is sufficient to ensure the management of third-party relationships in a manner consistent with regulatory expectations and sound practices.

DBR does not conduct reviews of third-party providers because FHFA does not have express statutory authority as supervisor to examine services provided to its regulated entities. This is in contrast to other banking regulators, which have the statutory authority to examine the third-parties of the banks they supervise.⁸

⁵ Per DBR Operating Procedures Bulletin (OPB), *Federal Home Loan Bank Adverse Examination Finding Processes*, there are three broad classifications of findings: matters requiring attention (MRAs), which are the most serious; recommendations; and violations.

⁶ CAMELSO is a risk-focused rating system under which each FHLBank is assigned a composite rating based on an evaluation of various aspects of its operations. For the FHLBanks, the components evaluated are Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk.

⁷ The DBR OPB, *Workprogram Minimum Frequency Guidelines*, provides the basis for the biennial frequency. FHLBank activities or functions that have a relatively moderate volume, complexity, or importance to developing examination conclusions and FHLBank examination ratings are reviewed at least biennially.

⁸ FHFA relies on conservatorship authority to require that Fannie Mae and Freddie Mac include provisions in their third-party contracts on access to information about service providers and to exercise each Enterprise's contractual right to obtain such information as is necessary to fulfill FHFA's statutory safety and soundness responsibilities. FHFA does not have similar authority over the FHLBanks, which are not in conservatorship. As a result, FHFA's authority is limited in assessing the impact of third-party relationships on the safe and sound operations of FHLBanks. FHFA's lack of statutory authority to examine third-parties that provide services to their regulated entities is inconsistent with the statutory authority granted to banking regulators by the Bank Service Company Act, which allows them to examine the third-parties of the banks they supervise. The U.S. Government Accountability Office (GAO) has recommended that Congress provide FHFA with that authority. See GAO, [Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened](#) (March 2016) (GAO-16-278). In its 2022 Annual Report to Congress, FHFA concurred with that recommendation and recommends that Congress authorize FHFA to examine the records, operations, and facilities of each material service provider to a regulated entity.

FACTS AND ANALYSIS

DBR Conducted Effective Oversight of the FHLBanks' Management of Third-Party Provider Risks

We found that DBR conducted effective oversight to ensure that the FHLBanks managed third-party provider risks. Specifically, we noted the following during our audit:

- The examination module used by DBR examiners to prepare TPRM workprograms was consistent with FHFA's regulated entity guidance (advisory bulletins) on third-party relationship management. The examination module provided DBR examiners with the necessary work steps to review and evaluate the FHLBanks' management of third-party provider relationships.
- DBR executed the TPRM workprogram 14 times across the FHLBanks as part of its examinations of the FHLBanks. DBR substantially complied with its workprogram minimum frequency guidelines for the TPRM workprograms completed.
- DBR's TPRM workprogram examination procedures assessed the expected components of a third-party provider risk management program at all FHLBanks. These examination procedures included assessment of the FHLBanks' policies, procedures, and practices for third-party risk management governance and the following third-party provider risk management life cycle phases: (a) risk assessment, (b) due diligence regarding third-party providers, (c) contract negotiation, (d) ongoing monitoring, and (e) termination. The examination procedures also addressed the FHLBanks' business continuity and data security risks.
- DBR's supervisory conclusions on the FHLBanks' management of third-party provider risks were supported by examination workpapers for the five TPRM workprograms that we sampled.⁹
- There were three open MRAs related to third-party provider relationships at the beginning of our scope period. DBR issued six more MRAs and closed eight, leaving one MRA open at the end of our audit. DBR examiners effectively assessed the remediation of the three MRAs related to third-party provider relationship management that we sampled.

⁹ See the Objective, Scope, and Methodology section of this report for details on our sampling methods.

DBR Did Not Fully Document Sampling in Examination Workpapers

While DBR conducted effective oversight of the FHLBanks' management of third-party provider risks, we found three instances in the five TPRM workprograms sampled in which DBR did not fully document its sampling approaches, supervisory review of these approaches, or testing results in the examination workpapers. Specifically, we found that DBR examiners did not fully document:

- Sampling approaches and the Examiner-in-Charge's (EIC) approval of them in the examinations of two FHLBanks (one in 2020 and another in 2021); and
- The EIC's approval of the sampling approach and the testing results for sampled items in the 2021 examination of one FHLBank (unrelated to the one above).

FHFA's Examination Practices Bulletin (EPB) 2014-01, *Sampling Practices in Examinations*, states that examiners must document sampling approaches, testing results, and examination conclusions in the appropriate examination workpapers as provided in the *FHFA Examination Manual* and the examination module(s) that apply to the assigned examination topic. In addition, EPB 2014-01 states "sampling approaches must be approved by the Examiner-in-Charge or a designee."

DBR officials told us that these instances were oversights but that a degree of uncertainty regarding how to apply the EPB to DBR's sampling methods may have been a contributing factor. DBR officials contended that this is a documentation issue as EICs participate in numerous meetings with examiners during an annual examination where sampling approaches may be discussed and approved by the EIC, but that this approval may not be documented.

DBR typically uses judgmental sampling to perform their testing. In these cases, the sample was selected to test for compliance with policies and procedures. The samples with documentation concerns were a small part of the overall exam work. For context, in the five TPRM workprograms in our sample, there were over 100 distinct work steps of which six involved sampling. Overall, the documentation concerns did not affect our conclusion on the effectiveness of DBR's oversight. However, noncompliance with the sampling requirements in EPB 2014-01 (i.e., those for documentation of sampling approaches, supervisory review of these approaches, and testing results) increases the risk that sampling might not be conducted as intended. Accordingly, there is an increased risk that tests using these samples would not produce sufficient evidence to support examination conclusions or detect concerns in an FHLBank's third-party provider risk management process.

FINDING

DBR did not fully document sampling in the examination workpapers.

CONCLUSIONS

DBR conducted effective oversight of the FHLBanks’ management of third-party provider risks. Specifically, DBR conducted supervisory examination activities that: (a) used examination guidance that was consistent with the applicable advisory bulletins; (b) substantially complied with its workprogram minimum frequency guidelines; (c) assessed the expected components of a third-party provider risk management program at all FHLBanks; (d) assessed the remediation of the three MRAs related to third-party provider relationship management that we sampled; and (e) prepared examination workpapers that supported DBR’s supervisory conclusions on FHLBanks’ management of third-party provider risks. We also found that DBR did not fully document sampling in the examination workpapers as required by FHFA’s sampling requirements. Noncompliance with the sampling requirements increases the risk that DBR’s tests using samples would not produce sufficient evidence to support its examination conclusions or detect concerns in an FHLBank’s third-party provider risk management processes.

RECOMMENDATION.....

We recommend that the Deputy Director, DBR, re-enforce EPB 2014-01 requirements to the examination staff through reminders, training, or other forms of communication that conveys requirements for documenting sampling approaches, supervisory review of these approaches, and testing results.

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 response, which is included as an Appendix to this report. In its management response, FHFA agreed with our recommendation and stated that DBR will remind examination staff of the requirements in EPB 2014-01 for documenting sampling approaches, supervisory review of these approaches, and testing results. DBR will complete this reminder through training or email communication to all examination staff by July 31, 2024.

We consider FHFA’s planned corrective action responsive to our recommendation.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether DBR’s oversight was effective for ensuring that the FHLBanks managed third-party provider risks. The scope of this audit covered DBR’s supervision of the FHLBanks’ management of third-party provider risks during the calendar years 2020, 2021, and 2022.

To accomplish our objective, we performed the following procedures.

- Reviewed GAO’s *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014) (Green Book) and determined that the control activities and information and communication components of internal control were significant to this objective. We focused on the underlying principles that management should: (1) design control activities to achieve objectives and respond to risks; (2) implement control activities through policies; and (3) use quality information to achieve the entity’s objectives.
- Assessed the following FHFA advisory bulletins to determine the extent to which they described FHFA’s supervisory expectations for the FHLBanks’ management of third-party provider risks:
 - FHFA, AB 2018-08, [*Oversight of Third-Party Provider Relationships*](#) (September 28, 2018)
 - FHFA, AB 2017-02, [*Information Security Management*](#) (September 28, 2017)
- Assessed the following DBR examination module to determine the extent to which it was consistent with the advisory bulletins related to the FHLBanks’ management of third-party provider risks:
 - DBR, Third-Party Relationship Management (September 2022; previous version was a Draft Field Test – 2013)
- Reviewed the following FHFA and DBR guidance to identify requirements for DBR’s supervision of FHLBanks’ management of third-party provider risks:
 - FHFA, *FHFA Examination Manual* (December 2013)
 - FHFA Examination Practices Bulletin, *Sampling Practices in Examinations* (February 2014)

- DBR OPB, Workprogram Minimum Frequency Guidelines (December 19, 2012; updated October 7, 2016; February 18, 2020; and October 1, 2020)
- DBR OPB, Federal Home Loan Bank Examination Workpaper Standards (July 29, 2016; updated August 14, 2020; and September 9, 2020)
- DBR OPB, Federal Home Loan Bank Adverse Examination Findings Processes (April 19, 2017; updated August 27, 2020; and January 31, 2022)
- DBR OPB, Quality Control Program (December 26, 2018; updated September 17, 2019; and December 21, 2021)
- Reviewed prior OIG reports to identify findings and recommendations related to third-party providers and determined there was no impact on our audit:
 - FHFA-OIG, [*Despite FHFA's Acknowledgement that Enterprise Reliance on Third-Parties Represents a Significant Operational Risk, No Targeted Examinations of Fannie Mae's Third-Party Risk Management Program Were Completed Over a Seven-Year Period*](#) (March 29, 2021) (AUD-2021-007)
 - FHFA-OIG, [*Enterprise Monitoring of Cloud Computing Service Providers*](#) (August 12, 2020) (WPR-2020-005)
 - FHFA-OIG, [*Enterprise Third-Party Relationships: Risk Assessment and Due Diligence in Vendor Selection*](#) (March 12, 2020) (WPR-2020-003)
 - FHFA-OIG, [*An Overview of Enterprise Use of Cloud Computing*](#) (March 11, 2020) (WPR-2020-002)
 - Board of Governors of the Federal Reserve System OIG, [*The Board Can Enhance Its Cybersecurity Supervision Approach in the Areas of Third-Party Service Provider Oversight, Resource Management, and Information Sharing*](#) (April 17, 2017) (2017-IT-B-009)
 - U.S. Department of the Treasury OIG, [*OCC's Review of Banks' Use of Third Party Service Providers Is Not Sufficiently Documented*](#) (April 21, 2014) (OIG-14-034)
- Interviewed DBR personnel to gain an understanding of DBR's oversight activities for the FHLBanks' management of third-party provider risks. Obtained written responses from DBR personnel to address questions and observations related to our audit testing procedures. DBR personnel included the Senior Associate Director, Associate

Directors, and a Supervisory Examination Specialist responsible for conducting oversight of the FHLBanks' management of third-party provider risks.

- Reviewed DBR's examination scope memorandum prepared for the 11 FHLBanks within the scope of our audit to determine: (a) the population of TPRM examinations conducted by DBR and (b) whether DBR complied with DBR OPB, *Workprogram Minimum Frequency Guidelines*, for the TPRM workprogram. We found that DBR completed TPRM workprograms 14 times as part of its annual examinations of all 11 FHLBanks within our scope period, which included three FHLBanks having a TPRM workprogram completed twice.
- Analyzed all 14 TPRM workprograms completed within the audit scope period to determine whether DBR's examination procedures addressed the FHLBanks' third-party risk management governance and the third-party provider risk management life cycles phases: (a) risk assessment, (b) due diligence regarding third-party providers, (c) contract negotiation, (d) ongoing monitoring, and (e) termination. We also reviewed to determine whether the examination procedures addressed the FHLBanks' business continuity and data security risks.
- Selected samples of supervisory activities for testing DBR's compliance with examination guidance, including FHFA's Examination Practices Bulletin on sampling, and DBR's OPBs governing the planning and performance of supervisory activities. Our audit included steps to determine whether the results of DBR's examination work documented in the examination workpapers supported supervisory conclusions regarding the FHLBanks' management of third-party provider risks and whether DBR examiners ensured remediation of adverse examination findings and supervisory concerns related to the FHLBanks' management of third-party providers. We selected samples of the following TPRM workprograms and MRAs within our audit scope:
 - Selected a random sample of five TPRM workprograms (36 percent) from a population of 14 TPRM workprograms. We used a random number generator to select our sample for the purpose of avoiding bias and not for the purpose of projecting results across the universe of TPRM examinations.
 - Selected a random sample of three MRAs (33 percent) from a population of nine MRAs related to FHLBanks' third-party provider relationship management open during our audit scope period. There were three open MRAs related to third-party provider relationships at the beginning of our scope period. DBR issued six more MRAs and closed eight leaving one MRA open at the end of our audit. We used a random number generator to select the samples for the purpose of

avoiding bias and not for the purpose of projecting results across the universe of MRAs.

- Information systems were not significant to our audit objective as we did not rely on system generated reports to identify or validate our populations. We identified our population of TPRM workprograms based on a review of DBR's examination scope memorandum for each of the FHLBanks within our audit scope. We identified our population of third-party risk management related MRAs based on a review of reports of examination for principal findings that were related to third-party risk management. To gain comfort that the populations were complete, we reviewed examination documentation in FHFA's Information Management System and confirmed the populations with DBR officials.

We conducted this performance audit from September 2023 to March 2024 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.....

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Federal Housing Finance Agency

MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits

FROM: Joshua Stallings, Deputy Director, Division of FHLBank Regulation **JOSHUA STALLINGS**

SUBJECT: Draft Audit Report: *DBR Conducted Effective Oversight of the FHLBanks' Management of Third-Party Provider Risks But Did Not Fully Document Sampling in Examination Workpapers (OA-24-002)*

DATE: March 20, 2024

Digitally signed by
JOSHUA STALLINGS
Date: 2024.03.20
16:28:59 -04'00'

Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report. The objective of OIG's audit was to determine whether the Division of FHLBank Regulation's (DBR) oversight was effective for ensuring that the FHLBanks managed third-party provider risks. While the report concluded that DBR conducted effective oversight to ensure that the FHLBanks managed third-party provider risks, it identified an area for improvement and offered a recommendation. As outlined below, FHFA agrees with the recommendation.

Recommendation: *Re-enforce Examination Practices Bulletin (EPB) 2014-01 requirements to the examination staff through reminders, training, or other forms of communication that conveys requirements for documenting sampling approaches, supervisory review of these approaches, and testing results.*

Management Response: FHFA agrees with the recommendation. DBR will remind examination staff of the requirements in EPB 2014-01 for documenting sampling approaches, supervisory review of these approaches, and testing results. DBR will complete this reminder by training or through email communication to all DBR examination staff by July 31, 2024.

We would like to acknowledge the dedication and professionalism by the OIG staff who conducted this audit. We find the report and its conclusions valuable in continuing to enhance our supervisory program. If you have any questions relating to our response, please contact Ed Stolle.

cc: John Major
Mark David
Ed Stolle

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