



Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac

This audit report was removed and reposted on September 22, 2020, to include an Addendum to the original report. In its management response to this audit, FHFA stated it would assess the report's recommendation and provide a response by June 30, 2020. The Addendum provides FHFA's June 30, 2020, response and related communications. In summary, FHFA has planned an alternative approach to our recommendation that meets the intent of the recommendation.



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Executive Summary

The Housing and Economic Recovery Act of 2008 (HERA) created and charged the Federal Housing Finance Agency (FHFA or the Agency) with, among other things, the supervision of Fannie Mae and Freddie Mac (together, the Enterprises), the Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities), and the FHLBanks' fiscal agent, the Office of Finance. Its statutory mission as a federal financial regulator includes ensuring the safety and soundness of its regulated entities. For the Enterprises, FHFA fulfills this statutory obligation through its Division of Enterprise Regulation (DER), which conducts targeted examinations and ongoing monitoring of the Enterprises during each year. Since 2008, FHFA has also served as conservator of the Enterprises.

FHFA recently revised its strategic plan for the conservatorships of the Enterprises. Its objectives in this revised plan include ensuring that the Enterprises (1) operate in a safe and sound manner appropriate for entities in conservatorship and (2) prepare for eventual exit from conservatorship. FHFA recognizes that, as it pursues these strategic goals, “the Agency should be strengthened with additional regulatory and supervisory authorities for an eventual post-conservatorship environment” and, to accomplish this, “FHFA’s supervisory capacity will need to be on par with that of other independent federal financial regulators.”

FHFA, like other federal financial regulators, develops an annual supervisory strategy and annual supervisory plan for each entity it regulates. Workforce planning is a process for identifying and addressing gaps between an organization’s current staff and its future workforce needs. It serves as the foundation for management of an organization’s human capital. In a 2013 evaluation, we found that FHFA lacked a systematic process to ensure that its core examination teams for the Enterprises were adequately staffed to execute their annual examination plans in a timely and thorough manner. In its response, FHFA and DER committed to undertake systematic workforce planning. The following year, DER represented in writing that it was developing and implementing a workforce planning process. It projected that it would complete all high-priority examination activities planned for the 2014 examination cycle on time and was authorized to hire examiners for other planned supervisory activities.

We performed this audit to determine whether DER adopted and implemented a systematic supervisory workforce planning process—as it committed to do in 2013, claimed to have done during 2014, and reaffirmed the importance of in 2018—in its current Agency-wide strategic plan, to meet its statutory



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responsibilities to ensure the Enterprises' safety and soundness. The audit review period was 2017 to 2019.

Notwithstanding its commitments, DER, through its senior leadership, acknowledged to us that DER had not engaged in a systematic workforce planning process. The impact of the lack of such a process can be seen in audits we issued in 2016 and 2019. In those audits, we reviewed completion of targeted examinations for the 2012 through 2018 examination cycles using DER data. Over this seven-year period, we found that DER consistently failed to complete all targeted examinations during the examination cycle for which they were planned.

The failure by DER over the past five years to adopt and implement a systematic supervisory workforce planning process and its persistent failure to complete targeted examinations in the cycle for which they were planned over the past seven years, calls into question its capacity to supervise the Enterprises. In our judgment, deliberate urgency and resolute commitment by FHFA's Director and senior management team to resolve these deficiencies and to implement the recommendations in this report are required if FHFA is to meet its strategic goals. We therefore are reaffirming two recommendations from our 2013 evaluation report and making one new recommendation. In a written management response, FHFA deferred any response to our recommendation until June 30, 2020, to provide its new management team in DER with the opportunity to consider it.

This report was prepared by James Lisle, Audit Director; April Ellison, Auditor-in-Charge; Gregg Schwind, Attorney Advisor; Christopher Mattocks, Auditor; and with assistance from 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.fhfaog.gov and www.oversight.gov.

Marla A. Freedman, Deputy Inspector General for Audits /s/

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ABBREVIATIONS

DER	Division of Enterprise Regulation
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
GAO	Government Accountability Office
HERA	Housing and Economic Recovery Act of 2008
OFHEO	Office of Federal Housing Enterprise Oversight
OIG	Federal Housing Finance Agency Office of Inspector General
OPM	Office of Personnel Management

BACKGROUND.....

FHFA is required by statute to conduct annual on-site examinations of the Enterprises and the FHLBanks.¹ For the Enterprises, FHFA fulfills this statutory obligation by conducting targeted examinations and ongoing monitoring of them during each year through DER. DER also supervises Common Securitization Solutions, LLC, a joint venture owned by the Enterprises and charged with developing, building, and operating the Common Securitization Platform.

As of August 2019, DER's workforce consisted of 159 employees organized into five offices under a Deputy Director, DER.² For purposes of this audit, only two of the five offices are relevant:

- *Office of Fannie Mae Examinations* is responsible for planning and executing examinations of Fannie Mae. Within this office, the examination team is divided into four branches focused on credit risk, governance risk, market and model risk, and operational risk.
- *Office of Freddie Mac Examinations* is responsible for planning and executing examinations of Freddie Mac. Within this office, the examination team is divided into four branches focused on credit risk, market risk, governance and model risk, and operational risk.

DER's authorized staffing levels have remained relatively flat over the past several years, ranging from 165 as of January 2016 to 169 as of August 2019.

Workforce Planning Guidance

Workforce planning is a process for identifying and addressing gaps between an organization's current staff and its future workforce needs. According to the Office of Personnel Management (OPM), workforce planning serves as the foundation for managing an organization's human capital. Effective workforce planning enables an organization to align workforce requirements directly to an agency's strategic and annual business plans. OPM has issued guidance and best practices that provide a framework for effective workforce

¹ 12 U.S.C. § 4517(a).

² As part of a recently announced realignment of the Agency, a new Deputy Director, DER, as well as an Associate Director, DER, were appointed effective February 3, 2020.

planning.³ The OPM framework involves analyzing the mission, vision, and strategic plan for an organization; evaluating the current staff of the organization, including identification of current skills and competencies of the workforce (supply analysis); and forecasting the optimal headcount and competencies needed to meet the needs of the organization in the future (demand analysis). After supply and demand are analyzed, any gap between supply and demand is evaluated to identify headcount or competency gaps. According to OPM, workforce analysis relies heavily on the proper collection and evaluation of data. Through effective data-driven reviews, agencies may more readily assess work demands, emerging mission imperatives, and future trends likely to affect human capital needs; more effectively evaluate human capital strategies and interventions designed to reduce or eliminate competency gaps in vital positions; and understand why certain interventions may help alleviate attrition risk among employees in high impact positions.⁴

FHFA's 2013 Agreement to Adopt a Workforce Planning Strategy

In a 2011 evaluation,⁵ we found that FHFA lacked a sufficient number of examiners and a program to produce commissioned examiners who were trained to conduct high-risk examinations. Based on those significant shortcomings in FHFA's supervisory program, we questioned whether FHFA had the necessary capacity to meet its critical statutory responsibilities to supervise the Enterprises.

In an update to that evaluation, issued in December 2013,⁶ we found that FHFA lacked a systematic process to ensure that its core examination teams for the Enterprises were

³ OPM Regulation 5 C.F.R. § 250.203, Strategic human capital management systems and standards (Apr. 11, 2017) (online [here](#), current as of Feb. 18, 2020), is applicable to certain agencies defined in 31 U.S.C. § 901, Establishment of Agency Chief Financial Officers, and provides useful workforce planning guidance for all agencies, including FHFA. Additional guidance by OPM is provided in its publications *Migration Planning Guidance Information Documents*, *Workforce Planning Best Practices* (Oct. 7, 2011) (online [here](#)) and *HRStat Guidance, Begin with the End in Mind* (June 2017) (online [here](#)).

⁴ The Government Accountability Office (GAO) counsels that strategic workforce planning is an essential element of an agency's institutional infrastructure and addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. Furthermore, assessment of workforce skills is incorporated in the standards for internal control of federal agencies issued by the Comptroller General. According to these standards, an organization's management should ensure that the workforce skills necessary to achieve programmatic goals are continually assessed.

⁵ OIG, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (Sept. 23, 2011) (EVL-2011-005) (online [here](#)).

⁶ OIG, *Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises* (Dec. 19, 2013) (EVL-2014-002) (online [here](#)).

adequately staffed to execute their annual examination plans in a timely and thorough manner. We made two recommendations to which FHFA agreed:

- (1) Develop a process to link annual Enterprise examination plans to core team resource requirements; and
- (2) Establish a strategy to ensure that FHFA has the necessary examiner resources to ensure rigorous, timely, and effective Enterprise examination oversight.⁷

In short, FHFA agreed to develop a workforce planning process that implemented our recommendations. Such a workforce planning process as described by FHFA would have been consistent with OPM guidance.

FHFA's Efforts to Develop a Systematic Workforce Planning Process

In April 2014, DER detailed, in a written memorandum to us, the corrective actions taken to implement its first commitment and described its planning process for the 2014 examination cycle. Among other things, DER estimated that a total of 71,000 hours of resources were available to conduct supervisory activities of the Enterprises during 2014 and projected that it would complete 100% of the high-priority examination activities planned for the 2014 examination cycle on time. DER also represented that it was authorized to hire five additional full-time examiners to assist with completion of other planned supervisory activities that were less than high-priority.

In December 2014, DER set forth the corrective actions taken to implement its second commitment. In a written memorandum to us, DER explained its strategy for ensuring that it had sufficient resources to conduct supervisory activities and to complete planned examination activities during the 2015 examination cycle. Its strategy included examination planning meetings, risk-ranking of examination activities, coordinating with other DER offices, developing a more reliable estimate of available staff hours, and allocating more resources to the resource planning process.

⁷ Underscoring the need to establish such a strategy, the current FHFA Director testified in October 2019:

Prior to ending the conservatorships, FHFA's supervision of the Enterprises must be strong and well-executed. All supervisory and oversight procedures and systems must ensure that FHFA's examination work is consistently rigorous, timely, and effective, and that additional resources are efficiently allocated to meet the needs of critical areas such as risk modeling and information technology.

Written testimony of FHFA Director Mark Calabria before the U.S. House of Representatives Committee on Financial Services, October 22, 2019.

FHFA Reaffirmed in its Current Strategic Plan that Systematic Management of Examiner Resources Is Critical to Goal and Mission Achievement

In 2018, FHFA adopted its current five-year strategic plan, *FHFA Strategic Plan: Fiscal Years 2018-2022* (Strategic Plan). The Strategic Plan contains three broad strategic goals. The first strategic goal is to “Ensure Safe and Sound Regulated Entities,” and FHFA explains that it will accomplish this by completing three performance goals. In the first performance goal, FHFA commits to assess the safe and sound operation of the regulated entities by conducting annual examinations, targeted examinations, ongoing monitoring, and off-site reviews, as appropriate. After articulating the three strategic goals in its Strategic Plan, FHFA identifies five “Critical Factors that Affect Achievement of Strategic Goals.” The critical factor, “FHFA Resources,” is a factor solely within FHFA’s control. According to FHFA:

Managing FHFA’s resources successfully is critical to goal and mission achievement. **Strategic goals and expected outcomes cannot be achieved without prudent and effective management of resources to ensure that the right people, funds, supplies, physical space, and technology are in place. . . . Careful and collaborative planning will be necessary to ensure that [the Strategic Plan] is supported and that Agency resources are available and employed efficiently to support planned activities.** (emphasis added)

Other federal financial regulators, in their strategic plans, also recognize the importance of effective, systematic workforce planning to ensure that their regulated entities are operated in a safe and sound manner.⁸

⁸ For example, the Office of the Comptroller of the Currency’s (OCC) current strategic plan states “The OCC understands and addresses staffing requirements and skill gaps for all agency functions to ensure the OCC’s success. In doing so, the OCC considers and integrates the current staffing model, resources, and skill needs, as well as the recruitment, retention, and development tools necessary to ensure a diverse and expert workforce.” OCC, *The OCC Strategic Plan Fiscal Years 2019-2023*, at 5 (Sept. 2018) (online [here](#)). The Federal Deposit Insurance Corporation (FDIC) has also noted the importance of workforce planning: “The FDIC’s strategic workforce planning initiatives require a long-term and sustained focus to identify future workforce and leadership needs, assess current capabilities, support aspiration to management and leadership roles, and develop and source the talent to meet emerging workforce needs.” FDIC, *2018 Annual Report*, at 56 (Feb. 14, 2019) (online [here](#)). Similarly, the OIG for the Board of Governors of the Federal Reserve System (the Board) noted in a March 2019 report that the Board’s Human Resources function developed a preliminary enterprise-wide workforce planning process in 2017 and in 2018 began piloting this process. See OIG for the Board and Bureau of Consumer Financial Protection, *The Board Can Take Additional Steps to Advance Workforce Planning*, at 2 (Mar. 25, 2019) (2019-MO-B-004) (online [here](#)).

FACTS AND ANALYSIS

Notwithstanding DER's Commitment in December 2013 to Implement a Systematic Workforce Planning Process, Representations in 2014 that it Had Adopted Such a Process, and Reaffirmation in 2018 of the Importance of Such a Process, DER Failed to Implement Such a Process

Work we completed in 2016 provided insight into the adequacy of the systematic workforce planning process FHFA claimed to have adopted in 2014.⁹ Specifically, we reviewed DER's completion of planned targeted examinations for 2012 and 2013 (when FHFA acknowledged that it lacked any systematic process) and 2014 and 2015 (when FHFA claimed to have put a systematic process in place).

For Fannie Mae we found:

- DER completed 68% (26 of 38) of the targeted examinations planned between 2012 and 2013, when no systematic workforce planning process was in place.
- Its completion rate dropped to 27% (17 of 64) during 2014 and 2015, after purported adoption of a workforce planning process.
- Those rates dropped further when we reviewed whether the examination was completed during the annual examination cycle for which it was planned: of the 64 targeted examinations for these two cycles, only 8 (12.5%) were completed during the examination cycle for which it was planned.

For Freddie Mac we found:

- DER completed 78% (28 of 36) of the targeted examinations planned between 2012 and 2013, when no systematic workforce planning process was in place.
- Its completion rate dropped to 41% (22 of 54) during 2014 and 2015, after purported adoption of a workforce planning process.

⁹ OIG, *FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued* (Sept. 30, 2016) (AUD-2016-006) (online [here](#)); and *FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed* (Sept. 30, 2016) (AUD-2016-007) (online [here](#)).

- Again, the completion rate dropped further when we reviewed whether the examination was completed during the examination cycle for which it was planned. Of the 54 targeted examinations for these two cycles, only 14 (26%) were completed during the examination cycle for which it was planned.

During these audits, DER officials maintained to us that DER was not able to complete the planned targeted examinations because of resource constraints. That assertion was consistently denied by DER leadership and by the then-FHFA senior leadership: they insisted that DER had an adequate complement of examiners. Given that FHFA represented in April 2014 that it had adopted a systematic workforce planning process and claimed in December 2014 that it had implemented this process for the 2015 examination cycle, we concluded from our factual findings that DER's failure to complete a high percentage of its planned targeted examinations for the 2014 and 2015 examination cycles called into question DER's ability to carry out its statutory responsibilities to supervise the Enterprises.¹⁰

In view of the dismal results in our 2016 audits, we performed similar audits in 2019 to determine whether DER's performance improved. Like the 2016 audits, these audits provided insights into whether DER implemented a systematic workforce planning process to ensure that its core examination teams for the Enterprises were appropriately staffed in size and skills mix so they were able to complete targeted examinations of the Enterprises during the examination cycle for which the examinations were planned. In these audits, we assessed whether DER completed its planned targeted examinations of the Enterprises during three examination cycles – 2016, 2017, and 2018.¹¹

¹⁰ In a September 2017 audit, we assessed whether DER completed any of its planned supervisory activities relating to Fannie Mae's cybersecurity risk during the 2016 examination cycle, in light of FHFA's written representations that cybersecurity activities would be a key objective of its supervisory work during 2016. We found that DER completed none of these planned supervisory activities, raising again the concern that DER lacked a sufficient complement of examiners to adequately perform its supervisory responsibilities.

In response, FHFA committed to assess the effectiveness of its Information Technology and Information Security examinations branch to determine whether to move staff or request additional staffing. *See* OIG, *FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle* (Sept. 27, 2017) (AUD-2017-010) (online [here](#)).

¹¹ 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](#)); and *FHFA's Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue* (Sept. 17, 2019) (AUD-2019-013) (online [here](#)).

While we found that DER's overall completion rate had improved since the period covered in our September 2016 audits (2012 to 2015), DER's completion of the examinations during the cycle for which they were planned remained an issue. For Fannie Mae, we found:

- DER completed 81% (38 of 47) of the planned targeted examinations from 2016 to 2018 (of the 9 planned targeted examinations that were not completed, 8 were either converted to ongoing monitoring, deferred, or cancelled for documented risk-based reasons and 1 was still ongoing as of July 1, 2019).
- Timely completion of the targeted examinations remained an issue. Only 21 of the 38 completed examinations (55%) were completed during the examination cycle for which they were planned.

For Freddie Mac, we found:

- DER completed 80% (37 of 46) of the targeted examinations planned between 2016 and 2018 (of the 9 planned targeted examinations that were not completed, 7 were either converted to ongoing monitoring, converted to a business profile, or cancelled for documented risk-based reasons and 2 were still ongoing as of July 1, 2019).
- Timely completion of the targeted examinations also remained an issue as only 27 of the 37 completed examinations (73%) were completed during the examination cycle for which they were planned.

As part of this audit, we also analyzed the onboard staffing levels of DER's core examination teams for the Enterprises for each examination cycle. Figure 1 reflects DER's completed targeted examinations of the Enterprises during the cycle for which they were planned, using the data from our 2016 and 2019 audits, and DER's onboard examination staff.

FIGURE 1: DER'S COMPLETED TARGETED EXAMINATIONS OF THE ENTERPRISES DURING THE EXAMINATION CYCLE FOR WHICH THEY WERE PLANNED AND THE ONBOARD STAFFING LEVELS OF DER'S CORE EXAMINATION TEAMS FOR THE ENTERPRISES FOR EACH EXAMINATION CYCLE, 2012 THROUGH 2018

	2012	2013	2014	2015	2016	2017	2018
Fannie Mae targeted examinations completed during the examination cycle for which they were planned	12	8	8	0	4	7	10
Freddie Mac targeted examinations completed during the examination cycle for which they were planned	13	6	7	7	5	8	14
Total Completed Targeted Examinations for Both Enterprises	25	14	15	7	9	15	24
Onboard Staffing Levels of DER's Core Examination Teams	53	61	62	53	59	61	68

Source for onboard staffing levels of the Fannie Mae and Freddie Mac core examination teams for 2012 and 2014 through 2018 are DER's organizational charts: the 2012 data is as of January 2, 2013; the 2014 data is as of February 26, 2014; the 2015 data is as of February 2, 2015; the 2016 data is as of April 4, 2016; the 2017 data is as of January 18, 2017; the 2018 data is as of February 26, 2018. The staffing levels for the core examination teams for 2013 are as of late October 2013, as reported in OIG evaluation report, *Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises*, at 15 (Dec. 19, 2013) (EVL-2014-002) (online [here](#)).

While DER officials invoked resource constraints to explain DER's inability to complete targeted examinations during the examination cycle for which they were planned, our analysis of DER data does not support that claim.

- DER completed the largest number of planned targeted examinations during the 2012 examination cycle (25) with 53 onboard examination staff.
- For the 2014 examination cycle, DER had 62 onboard examination staff – 9 more than 2012 – but completed only 15 planned targeted examinations.
- For the 2018 examination cycle, DER had 68 onboard examination staff – 15 more than 2012 – but completed one less planned targeted examination (24) than during the 2012 examination cycle (25).

DER Senior Officials Acknowledge that DER Has Not Undertaken a Systematic Workforce Planning Process to Determine Whether it Has the Right Staff Size and Skill Mix to Conduct its Statutory Supervisory Responsibilities, But Incorrectly Maintain that the Lack of Such a Process Has Not Impaired its Supervision Program

We were unable to reconcile FHFA's commitment to us in 2013 to undertake a systematic workforce planning process, its written representations during 2014 of the progress made in

implementing that commitment, and its recent 2018 reaffirmation of the importance of systematic workforce planning with its persistent five-year failure (2014 through 2018) to complete targeted examinations in the cycle for which they were planned. To understand what workforce planning, if any, DER conducted during the review period, we interviewed senior DER officials, including the then-Deputy Director, the Examiners-in-Charge for Fannie Mae and Freddie Mac, the Associate Directors of the other DER offices, and the Chief Accountant, and reviewed available documentation.

As discussed previously, OPM's workforce planning framework includes an analysis of workforce supply and demand. That analysis includes: identification of current examination skills and competencies of its examiners; forecast of the optimal headcount and competencies needed to meet its supervisory needs; and evaluation of whether a gap exists between skills that its workforce may need but does not possess. DER officials reported to us that DER did not have such a process in place. FHFA's *Examination Manual*, adopted in December 2013, contemporaneously with DER's commitment to undertake a systematic workforce planning process, states:

[The annual examination plan for each Enterprise] generally incorporates...an identification of staffing requirements for conducting and participating in the supervisory activity.

DER, however, promulgated no Operating Procedures Bulletin to implement this guidance. DER officials confirmed to us that DER did not have a workforce plan in place and acknowledged that DER had not undertaken a systematic workforce planning process.

These officials sought to explain this lack of workforce planning on budgetary grounds. They asserted that the then-FHFA Director insisted on a flat overall budget for DER for fiscal years 2016 through 2019.¹² As a consequence, they determined that DER's examination activities were constrained by DER's available staffing resources rather than on conducting the examinations needed to ensure the safety and soundness of the Enterprises. (Similarly, these DER officials pointed to resource constraints in 2016 to explain DER's failure to complete targeted examinations during the examination cycle for which they were planned.) The then-Deputy Director sought to explain DER's lack of a systematic workforce planning process with another rationale: FHFA's relative lack of maturity as a federal financial regulator.

¹² FHFA's written budget guidance for fiscal years 2016 through 2019 is consistent with these statements. Guidance for fiscal year 2020, under the current FHFA Director, does not include such guidance.

According to her, DER's current supervision structure has only been in place since October 2014 (even though its examiner workforce has been relatively stable) and is still maturing.¹³

Those explanations lack merit:

- With respect to the budget, FHFA is not funded by the appropriations process. Rather, HERA authorizes FHFA to collect from the regulated entities “annual assessments in an amount . . . sufficient to provide for the reasonable costs (including administrative costs) and expenses of the Agency, including . . . the expenses of any examinations”¹⁴ Had DER determined that additional funds were needed to carry out its statutory supervisory responsibilities to ensure the safety and soundness of the Enterprises, FHFA could have increased its budget and obtained funding from the Enterprises.
- The claim that FHFA lacks maturity as a federal financial regulator elevates form over substance. HERA, adopted into law in 2008, combined two existing entities, the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board. Indeed, FHFA acknowledges that its predecessor supervisor of the Enterprises was OFHEO, which had been operating since 1992. FHFA recognizes that HERA provided FHFA with a full array of supervisory tools, many of which were unavailable to OFHEO.
- Claims that DER's current supervision structure has only been in place since 2014 provides no justification for its failure to follow through on its 2013 commitment to adopt and implement a systematic workforce planning process.

The then-Deputy Director offered an additional rationale. She stated that FHFA had not adopted guidance on workforce planning and maintained that such guidance would be better developed at the Agency level rather than by each division. That contention ignores the commitment made by FHFA and DER in 2013 and 2014 to develop and implement a systematic workforce planning process sufficiently robust to ensure that DER conducts and completes its planned supervisory activities. Whatever the benefits of Agency-level guidance may be, DER cannot avoid its delegated responsibilities to properly supervise the Enterprises by failing to conduct systematic workforce planning it pledged to undertake.

DER officials asserted to us that the absence of a systematic workforce planning process had not adversely affected DER's ability to assess the safety and soundness of Enterprise

¹³ DER's structure changed in October 2014 when FHFA merged most of its former Division of Supervision Policy and Support into DER.

¹⁴ 12 U.S.C. § 4516(a).

operations because DER had sufficient resources to complete all planned high-risk examination activities. That assertion, however, cannot be substantiated: DER removed priority designations for its targeted examinations from the examination plans in 2016 so it is not possible to determine which examination activities were categorized by DER as high-risk.

We hold no view as to the number of examiners needed for DER to carry out its statutory responsibilities and DER has undertaken no analysis to make that determination. Whatever that number may be, those examiners must have the necessary skills and training to conduct the planned targeted examinations. Again, DER has no process to assess whether its current complement of examiners has adequate skills and training to undertake the assigned supervisory activities.

The then-Deputy Director has consistently maintained that DER expects all planned supervisory activities to be completed in the examination cycle for which they were planned, unless there is a documented risk-based or operational justification as to why a planned activity will not be completed.¹⁵ Our evaluation issued in 2013 and our audits issued in 2016, 2017, and 2019 demonstrate that DER has consistently failed to complete all planned targeted examinations during the examination cycle for which they were planned.

DER's persistent failure to complete its planned targeted examinations in the cycle for which they were planned over the past seven years and the acknowledgement by DER officials that DER lacks a systematic workforce planning process calls into question DER's ability to carry out its supervision of the Enterprises.

FINDINGS

DER Lacks a Systematic Workforce Planning Process

Notwithstanding the commitment made by DER in 2013 to undertake a systematic workforce planning process, written representations during 2014 of the progress made in implementing that commitment, and reaffirmation in 2018 of the importance of systematic workforce planning, DER has failed to implement such a process. The explanations provided by DER officials to explain its failure to implement such a process lacked merit. As a result, DER has not ensured it has the right resources in place to meet its mission responsibility for assessing the safe and sound operation of the Enterprises.

¹⁵ 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*, at 24 (Sept. 17, 2019) (AUD-2019-012) (online [here](#)).

DER Lacks a Basis to Determine Whether its Current Complement of Examiners Has the Necessary Skills and Experience to Carry Out Supervision of the Enterprises

Even though FHFA’s *Examination Manual* contemplates that the annual examination plan for each Enterprise will include an identification of staffing requirements for conducting and participating in the supervisory activity, DER has not performed the analysis needed to provide this identification. It lacks a data-driven basis for any decisions as to whether its current complement of examiners possesses the collective competencies needed to meet its supervisory responsibilities.

CONCLUSION.....

Last October FHFA revised its strategic plan for the conservatorships of the Enterprises. As stated in *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, FHFA’s objectives include ensuring that the Enterprises (1) operate in a safe and sound manner appropriate for entities in conservatorship and (2) prepare for eventual exit from conservatorship. FHFA recognizes that, as it pursues these strategic goals, “the Agency should be strengthened with additional regulatory and supervisory authorities for an eventual post-conservatorship environment” and, to accomplish this, “FHFA’s supervisory capacity will need to be on par with that of other independent federal financial regulators.”

The failure by DER to adopt and implement a systematic workforce planning process—as it committed to do in 2013, claimed to have done during 2014, and reaffirmed the importance of in 2018—and its persistent failure to complete targeted examinations in the cycle for which they were planned over the past seven years, calls into question its supervisory capacity. In our judgment, deliberate urgency and resolute commitment by the FHFA Director and senior management team to resolve these collective deficiencies and to implement the recommendations in this report is required if FHFA is to meet its goals.

RECOMMENDATIONS.....

We reaffirm the open recommendations in our December 2013 evaluation report¹⁶ that FHFA: (1) develop a process that links annual Enterprise examination plans with core team resource

¹⁶ OIG, *Update on FHFA’s Efforts to Strengthen its Capacity to Examine the Enterprises* (Dec. 19, 2013) (EVL-2014-002) (online [here](#)).

requirements; and (2) establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.

Based on this audit, we recommend that FHFA:

1. Direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with OPM guidance and best practices and is fully documented in writing. That process should include:
 - Identifying the current examination skills and competencies of its examiners;
 - Forecasting the optimal staffing levels and competencies needed to meet its supervisory needs;
 - Evaluating whether a gap exists between skills that its workforce may currently need but does not possess; and
 - Addressing that gap.

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 to this report. In its response, FHFA neither agreed nor disagreed with our recommendation. Rather, FHFA stated that in light of recent leadership changes in DER, DER is considering various opportunities to enhance the capabilities, processes, and resources of the supervision program. Accordingly, FHFA will assess the recommendation and provide a response by June 30, 2020.

FHFA also commented that while our report focuses on strategic workforce planning within the context of the OPM guidance, DER did implement changes in its examination planning process to address its commitments to prior OIG recommendations and that these enhancements contributed to improvements in DER’s overall completion rate of targeted examinations.

As discussed in this report, DER’s overall completion rate for planned targeted examinations did improve for the 2016 to 2018 examination cycles compared to 2012 to 2015. However, timely completion of the 2016 to 2018 targeted examinations remained an issue as only 55% of examinations for Fannie Mae were completed during the examination cycle for which they were planned and only 73% were completed for Freddie Mac.

OBJECTIVE, SCOPE, AND METHODOLOGY

We performed this audit to determine whether DER had adopted and implemented a systematic supervisory workforce planning process—as it committed to do in 2013, claimed to have done during 2014, and reaffirmed the importance of in 2018—to meet its statutory responsibilities to ensure the Enterprises’ safety and soundness. The review period of this audit was 2017 to 2019.

To accomplish our objectives, we performed the following.

- Reviewed the following sources of principles and guidance on strategic workforce planning:
 - OPM, *Workforce Planning Best Practices* (Oct. 7, 2011)
 - OPM, *Workforce Planning Model*
 - OPM Regulation 5 C.F.R. § 250.203, *Strategic human capital management systems and standards* (effective Apr. 11, 2017)
 - GAO-04-39, *Key Principles for Effective Strategic Workforce Planning* (Dec. 2003)
 - GAO-02-373SP, *A Model of Strategic Human Capital Management* (Mar. 2002)
 - GAO, *Standards for Internal Control in the Federal Government* (Sept. 2014)
 - Society of Human Resource Management, *Practicing the Discipline of Workforce Planning* (Dec. 15, 2018)
- Reviewed *FHFA’s Strategic Plan: Fiscal Years 2018-2022* (Jan. 29, 2019).
- Reviewed *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (Oct. 2019).
- Reviewed the *FHFA Examination Manual* (December 2013) and other FHFA and DER guidance to identify workforce planning guidance applicable to DER.
- Interviewed DER officials and FHFA’s Office of Human Resource Management officials to gain an understanding of DER’s workforce planning process and documentation of the process and workforce planning activities that were conducted. The DER officials interviewed were the then-Deputy Director, the Special Supervision Advisor, the Examiners-in-Charge for Fannie Mae and Freddie Mac, the Associate

Directors for the Office of Risk and Policy and Office of Enterprise Supervision Operations, the Chief Accountant, and the Business Operations Branch Manager.

- Reviewed past OIG reports that assessed various aspects of FHFA staffing and completion of examination activities.
 - OIG, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (Sept. 23, 2011) (EVL-2011-005) (online [here](#))
 - OIG, *Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises* (Dec. 19, 2013) (EVL-2014-002) (online [here](#))
 - OIG, *FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued* (Sept. 30, 2016) (AUD-2016-006) (online [here](#))
 - OIG, *FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed* (Sept. 30, 2016) (AUD-2016-007) (online [here](#))
 - OIG, *FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions* (Mar. 28, 2017) (EVL-2017-004) (online [here](#))
 - OIG, *FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle* (Sept. 27, 2017) (AUD-2017-010) (online [here](#))
 - 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](#))
 - OIG, *FHFA's Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue* (Sept. 17, 2019) (AUD-2019-013) (online [here](#))

We conducted this performance audit from April 2019 through February 2020 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: Marla A. Freedman, Deputy Inspector General for Audits
FHFA Office of Inspector General (OIG)

FROM: Paul Miller, Deputy Director *PGM*
FHFA Division of Enterprise Regulation (DER)

SUBJECT: Draft OIG Report: *Despite Its Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether It Has A Sufficient Number of Qualified Examiners to Assess the Safe and Sound Operations of Fannie Mae and Freddie Mac*

DATE: February 20, 2020

Thank you for the opportunity to respond to the draft report referenced above (Report). While the Report focuses on strategic workforce planning within the context of the Office of Personnel Management guidance, DER did implement changes in its examination planning process to address its commitments to prior OIG recommendations. These enhancements have contributed to improvements in DER's overall completion rate of targeted examinations.

As noted in the Report, FHFA recently announced a realignment of the Agency structure, including hiring a new Deputy Director and Associate Director for DER. In light of these leadership changes, DER is considering various opportunities to enhance the capabilities, processes, and resources of the supervision program. Accordingly, FHFA will assess the Report's recommendation and provide a response by June 30, 2020.

cc: Chris Bosland
Larry Stauffer
Scott Valentin
John Major

ADDITIONAL INFORMATION AND COPIES.....

For additional copies of this report:

- Call: 202-730-0880
- Fax: 202-318-0239
- Visit: www.fhfaoig.gov

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- Call: 1-800-793-7724
- Fax: 202-318-0358
- Visit: www.fhfaoig.gov/ReportFraud
- Write:

FHFA Office of Inspector General
Attn: Office of Investigations – Hotline
400 Seventh Street SW
Washington, DC 20219

ADDENDUM TO AUD-2020-004

In FHFA's February 20, 2020, management response to a draft of this audit report, which is included in the Appendix on page 21, the Federal Housing Finance Agency (FHFA) stated that it would "assess the report's recommendation" and provide a response by June 30, 2020. FHFA cited a recent "realignment of the Agency[s] structure, including hiring a new Deputy Director and Associate Director for [Division of Enterprise Regulation] DER" and explained that it was considering "various opportunities to enhance the capabilities, processes, and resources of the supervision program." FHFA met that commitment and submitted its management response to OIG on June 30.

In its June 30, 2020, management response (Appendix 1 to this Addendum), FHFA described the actions it has taken in conjunction with the realignment of the Agency's structure. Specifically, FHFA engaged a contractor in May 2020, "to provide organizational assessment expertise, analysis, and consulting services regarding the preparation of an organizational optimization Blueprint, including a human capital management plan, to cement FHFA's position as a world-class regulatory agency and to ensure the agency has the optimal organizational framework to carry out its supervisory mission in a post-conservatorship environment." FHFA stated that within 120 days of completion of this work, DER agreed to review the organization optimization Blueprint and determine the need for additional workforce planning specific to DER.

Neither FHFA's February 20 nor June 30, 2020, responses directly addressed OIG's one recommendation: FHFA did not state whether it agreed or disagreed with the recommendation. Accordingly, we asked FHFA to provide a supplemental response that explicitly addressed our recommendation.

FHFA submitted a supplemental response to the audit report (Appendix 2 to this Addendum) on July 24, 2020. FHFA stated that "While FHFA agrees that workforce planning is important, we disagree with the OIG's recommendations calling for DER to conduct specific planning activities at the division level." FHFA repeated that it had retained a contractor to prepare an organizational optimization Blueprint at the Agency level that would include an Agency-wide human capital management plan.

We requested documents describing details of FHFA's engagement of its consultant, which FHFA provided on August 14, 2020. We reviewed these materials and found that the scope of the consultant's engagement includes an assessment of FHFA's existing and future workforce needs relative to a "best practice definition of a world class regulator." According to this defined scope, the consultant intends to gather input from each of FHFA's 11 divisions/offices, including DER.

We met with FHFA officials on August 19, 2020, to discuss FHFA’s management response to our recommendation and the scope of the consultant’s planned work with respect to workforce planning. During that meeting, we observed that FHFA’s planned actions appeared to be generally consistent with the spirit of our recommendation and that its actions reflected an alternative approach to remediate the deficiencies identified in the audit. FHFA officials advised that the intent of the organizational optimization Blueprint project was to address FHFA-wide organizational issues first, and then determine what actions, if any, need to be taken at the divisional level (e.g., DER).

After that meeting, FHFA management sent an August 19, 2020, email to us (Appendix 3 to this Addendum) in which it stated that its current Agency-wide organizational optimization Blueprint project is an alternative approach that should achieve a substantially similar result to our recommendation. Management advised that FHFA expects to provide OIG with the consultant’s Benchmarking Analysis Report, Current/Future Workforce Analysis Report, and Blueprint/Human Capital Plan by October 30, 2020. FHFA committed to notify us if any of these project deliverables will be delayed.

As our audit found, the lack of workforce planning has been an issue within DER since 2013. Based on representations by FHFA management and the terms of FHFA’s engagement with its consultant, we determined that FHFA’s planned alternative approach is generally responsive to our recommendation that a written systematic workforce planning process, that aligns with OPM guidance and best practices, be promptly developed for DER.

There is one caveat to our determination. In their written responses, FHFA stated that, upon completion of the organizational optimization Blueprint, FHFA and DER will *consider* [emphasis added] the need for additional workforce planning actions for the achievement of FHFA’s supervisory mission. It is our understanding that FHFA has committed to address any program gaps that cause FHFA to fall short of the “world class” standard established by the Benchmarking Analysis Report. Given the importance of FHFA’s supervision program to fulfill the Agency’s statutory mission to ensure the safe and sound operations of the Enterprises, we will periodically assess FHFA’s progress on this project to determine whether, in practice, FHFA’s actions result in the implementation of a written systematic workforce planning process for DER. As appropriate, we will report on that progress.

ADDENDUM APPENDIX 1: FHFA MANAGEMENT RESPONSE DATED JUNE 30, 2020



Federal Housing Finance Agency

MEMORANDUM

TO: Marla A. Freedman, Deputy Inspector General for Audits
Kyle D. Roberts, Deputy Inspector General for Evaluations

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

SUBJECT: *OIG Reports: Despite Its Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether It Has A Sufficient Number of Qualified Examiners to Assess the Safe and Sound Operations of Fannie Mae and Freddie Mac (AUD-2020-004, February 25, 2020) and Despite FHFA's Recognition of Significant Risks Associated With Fannie Mae's and Freddie Mac's High-Risk Models, Its Examination of Those Models Over a Six-Year Period Has Been Neither Rigorous Nor Timely (EVL-2020-001, March 25, 2020)*

DATE: June 30, 2020

Thank you for the opportunity to respond to the draft reports referenced above (Reports). As noted in the original management responses to these Reports, FHFA announced a realignment of the Agency structure on January 30, 2020, including hiring a new Deputy Director and Associate Director for DER. Accordingly, FHFA committed to assessing the Reports' recommendations and providing a response by June 30, 2020.

Recommendation 1 (AUD-2020-004): *OIG recommends that FHFA:*

Direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with OPM guidance and best practices and is fully documented in writing.

That process should include:

- *Identifying the current examination skills and competencies of its examiners;*
- *Forecasting the optimal staffing levels and competencies needed to meet its supervisory needs;*
- *Evaluating whether a gap exists between skills that its workforce may currently need but does not possess; and*
- *Addressing that gap.*

Recommendation 1 (EVL-2020-001): *OIG recommends that FHFA direct DER to develop a systematic workforce planning process within 12 months that aligns with Office of Personnel Management guidance and best practices and is fully documented. That process should include:*

- *Identifying the appropriate number of Enterprise high-risk models to be examined each year through targeted examinations;*
- *Identifying the current examination skills and competencies of examiners engaged in supervisory activities of high-risk models;*
- *Forecasting the optimal staffing levels and competencies of examiners necessary to complete the identified number of targeted examinations of high-risk models planned for each examination cycle;*
- *Evaluating whether a gap exists between skills required to conduct supervision of high-risk models that its examiners currently need but do not possess; and*
- *Addressing that gap.*

Recommendation 2 (EVL-2020-001): *OIG recommends that based on the results of its workforce analysis, conduct a written assessment of whether DER's current budget for its supervision of high-risk models is sufficient.*

Management Response: In May 2020, FHFA engaged the services of a contractor to provide organizational assessment expertise, analysis, and consulting services regarding the preparation of an organizational optimization Blueprint, including a human capital management plan, to cement FHFA's position as a world-class regulatory agency and to ensure the agency has the optimal organizational framework to carry out its supervisory mission in a post-conservatorship environment. Within 120 days of completion of this work, DER agrees to review the organizational optimization Blueprint and determine the need for additional workforce planning specific to DER.

cc: Chris Bosland
Kate Fulton
Scott Valentin
John Major

ADDENDUM APPENDIX 2: FHFA FOLLOW-UP RESPONSE DATED JULY 24, 2020.....



Federal Housing Finance Agency

MEMORANDUM

TO: Marla A. Freedman, Deputy Inspector General for Audits
Kyle D. Roberts, Deputy Inspector General for Evaluations

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

SUBJECT: *OIG Reports: Despite Its Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether It Has A Sufficient Number of Qualified Examiners to Assess the Safe and Sound Operations of Fannie Mae and Freddie Mac (AUD-2020-004, February 25, 2020) and Despite FHFA's Recognition of Significant Risks Associated With Fannie Mae's and Freddie Mac's High-Risk Models, Its Examination of Those Models Over a Six-Year Period Has Been Neither Rigorous Nor Timely (EVL-2020-001, March 25, 2020)*

DATE: July 24, 2020

This memorandum is in response to the Office of Inspector General's (OIG) July 16, 2020 request for a supplemental management response to FHFA's June 30, 2020 memorandum. The OIG is requesting that FHFA state whether we agree or disagree with the following OIG recommendations.

Recommendation 1 (AUD-2020-004): *OIG recommends that FHFA:*

Direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with OPM guidance and best practices and is fully documented in writing.

That process should include:

- *Identifying the current examination skills and competencies of its examiners;*
- *Forecasting the optimal staffing levels and competencies needed to meet its supervisory needs;*
- *Evaluating whether a gap exists between skills that its workforce may currently need but does not possess; and*
- *Addressing that gap.*

Recommendation 1 (EVL-2020-001): *OIG recommends that FHFA direct DER to develop a systematic workforce planning process within 12 months that aligns with Office of Personnel Management guidance and best practices and is fully documented. That process should include:*

- *Identifying the appropriate number of Enterprise high-risk models to be examined each year through targeted examinations;*
- *Identifying the current examination skills and competencies of examiners engaged in supervisory activities of high-risk models;*
- *Forecasting the optimal staffing levels and competencies of examiners necessary to complete the identified number of targeted examinations of high-risk models planned for each examination cycle;*
- *Evaluating whether a gap exists between skills required to conduct supervision of high-risk models that its examiners currently need but do not possess; and*
- *Addressing that gap.*

Recommendation 2 (EVL-2020-001): *OIG recommends that based on the results of its workforce analysis, conduct a written assessment of whether DER's current budget for its supervision of high-risk models is sufficient.*

Management Response: While FHFA agrees that workforce planning is important, we disagree with the OIG's recommendations calling for DER to conduct specific planning activities at the division level. As we communicated in our June 30, 2020 memo, FHFA engaged the services of a contractor to prepare an organizational optimization Blueprint at the Agency level, including an Agency-wide human capital management plan, to cement FHFA's position as a world-class regulatory agency and to ensure the agency has the optimal workforce, infrastructure, and organization to carry out its supervisory mission in a post-conservatorship environment. Upon completion of the organizational optimization Blueprint, FHFA and DER will consider the need for additional workforce planning actions for the achievement of FHFA's supervisory mission.

cc: Chris Bosland
Kate Fulton
Scott Valentin
John Major

ADDENDUM APPENDIX 3: FHFA FOLLOW-UP RESPONSE DATED AUGUST 19, 2020.....

From: Bosland, Christopher [mailto:Christopher.Bosland@fhfa.gov]
Sent: Wednesday, August 19, 2020 4:02 PM
To: Freedman, Marla [mailto:Marla.Freedman@fhfa.gov]; Roberts, Kyle [mailto:Kyle.Roberts@fhfa.gov]
Cc: Miller, Paul [mailto:Paul.Miller@fhfa.gov]; Major, John [mailto:John.Major@fhfa.gov]
Subject: Workforce Planning Recommendations

CAUTION: This email originated from outside the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

CONTROLLED

Marla/Kyle: As a follow-up to DER’s July 24, 2020 memorandum to the OIG’s three recommendations on DER workforce planning, and as discussed on our conference call this morning, FHFA believes its current Agency-wide Organizational Optimization Blueprint project represents an alternative approach that will address the spirit of the OIG’s recommendations.

Based on the current project plan, FHFA will provide the following Organizational Optimization Blueprint project deliverables by October 30, 2020:

- Benchmarking Analysis Report;
- Current/Future Workforce Analysis Report; and
- Blueprint/Human Capital Plan.

FHFA will notify OIG if any of these project deliverables will be delayed.

Please contact John Major if you have any further questions.

Thanks.

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