

Why GAO Did This Study

The Housing and Economic Recovery Act of 2008 (HERA) created the Federal Housing Finance Agency (FHFA) and gave it responsibility for, among other things, the supervision and oversight of the housing-related government-sponsored enterprises (GSE): Fannie Mae, Freddie Mac, and the 12 federal home loan banks. Specifically, FHFA was assigned responsibility for ensuring that each of the regulated entities operates in a fiscally safe and sound manner, including maintenance of adequate capital and internal controls, and carries out its housing and community development finance mission. HERA also requires FHFA to annually prepare financial statements, and further requires GAO to audit these statements.

Pursuant to HERA's requirement, GAO audited FHFA's fiscal years 2010 and 2009 financial statements to determine whether (1) the financial statements were fairly stated, and (2) FHFA management maintained effective internal control over financial reporting. GAO also tested FHFA's compliance with selected laws and regulations.

GAO is not making any recommendations in this report. In commenting on a draft of this report, FHFA stated that it was pleased with the results of the audit, and it would continue to work to enhance its internal controls and ensure the reliability of its financial reporting, its operational soundness, and public confidence in its mission.

FINANCIAL AUDIT

Federal Housing Finance Agency's Fiscal Years 2010 and 2009 Financial Statements

What GAO Found

In GAO's opinion, FHFA's fiscal years 2010 and 2009 financial statements are fairly presented in all material respects. GAO also concluded that FHFA had effective internal control over financial reporting as of September 30, 2010. GAO found no reportable instances of noncompliance with the laws and regulations it tested.

Because fiscal year 2009 was the first full year of FHFA's operations, fiscal year 2010 is the first year in which FHFA prepared comparative financial statements. As discussed in note 10, the fiscal year 2009 statement of net cost presents costs as one program for fiscal year 2009. For fiscal year 2010, FHFA tracked resource allocations and costs by strategic goal (responsibility segments), consistent with the strategic goals identified in its new strategic plan. Consequently, the fiscal year 2010 statement of net cost presents FHFA's costs by strategic goal.

In early September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the Director of FHFA, with the stated intent to stabilize these entities. The assets, liabilities, and activities of the two entities, Fannie Mae and Freddie Mac, are not reflected in FHFA's fiscal years 2010 and 2009 financial statements, based on determinations by the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) that they do not meet the criteria for inclusion in the financial statements of the U.S. government or the Treasury under federal accounting concepts. Specifically, OMB and Treasury concluded this because the entities are not currently reflected in the federal government's budget and because the conservatorship arrangement is considered to be temporary. FHFA management concurred with this conclusion. Should circumstances change, this conclusion would need to be revisited.

As of September 30, 2010, Fannie Mae and Freddie Mac have received about \$148.2 billion in direct financial support from Treasury in exchange for Treasury's purchase of the entities' senior preferred stock. Over the longer term, Congress and the executive branch face difficult decisions on how to restructure the entities and promote housing opportunities while limiting the risks to taxpayers and the financial markets.

GAO noted other less significant matters involving FHFA's internal controls and will be reporting separately to FHFA management on these matters.