

## 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 regulation of the housing-related government-sponsored enterprises: Fannie Mae, Freddie Mac, the 12 federal home loan banks, and the Office of Finance. 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 2011 and 2010 financial statements to determine whether (1) the financial statements were fairly presented and (2) FHFA management maintained effective internal control over financial reporting. GAO also tested FHFA's compliance with selected laws and regulations.

## What GAO Recommends

GAO is not making any recommendations in this report. In commenting on a draft of this report, FHFA stated that it accepted GAO's audit findings 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 2011 and 2010 Financial Statements

## What GAO Found

In GAO's opinion, FHFA's fiscal years 2011 and 2010 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, 2011. GAO found no reportable instances of noncompliance with the laws and regulations it tested.

FHFA's fiscal year 2011 financial statements include costs for the FHFA Office of Inspector General (OIG), which make up approximately 10 percent of FHFA's fiscal year 2011 costs. While the OIG was established in 2008 by the enactment of HERA, the Inspector General was not confirmed by the U.S. Senate until October 2010. Therefore, there were no OIG costs to be reported in FHFA's fiscal year 2010 financial statements.

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 2011 and 2010 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, though Treasury records an asset for its investments in the two entities and a liability for future payments to these entities on its financial statements. 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.

From early September 2008 through September 30, 2011, Fannie Mae and Freddie Mac have received about \$169 billion in direct financial support from Treasury in exchange for Treasury's purchase of the entities' senior preferred stock. Additionally, Fannie Mae and Freddie Mac are requesting \$7.8 billion and \$6.0 billion, respectively, in additional support from Treasury due to losses sustained for the quarter ended September 30, 2011. 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 matters involving FHFA's internal control that were less significant than a material weakness or significant deficiency, but which nonetheless merit management's attention. GAO will be reporting separately to FHFA management on these matters.