



Issue Date	March 16, 2005
Audit Report Number	2005-KC-0001

TO: Armando Falcon, Jr., Director, Office of Federal Housing Enterprise Oversight

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Office of Federal Housing Enterprise Oversight Is Comparable to Other
Federal Financial Regulators in Its Allocation of Resources and Staffing

HIGHLIGHTS

What We Audited and Why

The Chairman of the House Appropriations Subcommittee on the Department of Veterans Affairs, U.S. Department of Housing and Urban Development, and Independent Agencies asked that we determine whether the Office of Federal Housing Enterprise Oversight's (Office) allocation of resources over the last 3 years has been comparable to that of other financial regulators, including the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. We were also asked to compare the Office's staffing to the staffing of these regulators, including the staff's responsibilities, education, expertise, salaries, and other compensation.

To meet the request, we compared the Office's allocation of resources and staffing to those of four regulatory agencies: the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Housing Finance Board.

What We Found

We concluded that the Office has been comparable to other financial regulators in its allocation of resources and staffing for the past 3 years. The Office has allocated staff to its major functions at levels similar to those of the other

regulators, and its staff's education and expertise have also been consistent with those of the others. In addition, while differences exist, the Office's salaries, other compensation (bonuses and awards), and benefits have been generally comparable to those of the other agencies.

This report contains no recommendations; therefore, no further action on your part is necessary.

Auditee's Response

The Office generally agreed with our conclusions. We provided a draft report to the Office and requested a response by March 11, 2005, and the Office provided its written comments on March 10, 2005.

The complete text of the Office's response can be found in appendix C of this report.

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BACKGROUND AND OBJECTIVES

The Office of Federal Housing Enterprise Oversight (Office) was established as an independent entity within the U.S. Department of Housing and Urban Development by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title 13 of Public Law 102-550). The Office is headed by a Director appointed by the President of the United States for a 5-year term.

The Office's primary mission is to monitor Fannie Mae and Freddie Mac, two Government-sponsored enterprises. Fannie Mae and Freddie Mac are the Nation's largest housing finance institutions. They buy mortgages from commercial banks, thrift institutions, mortgage banks, and other primary lenders and either hold these mortgages in their own portfolios or package them into mortgage-backed securities for resale to investors. These secondary mortgage market operations play a major role in creating a ready supply of mortgage funds for American homebuyers.

The Office's oversight responsibilities include

- Conducting broad-based examinations of Fannie Mae and Freddie Mac;
- Developing a risk-based capital standard, using a "stress test" that simulates stressful interest rate and credit risk scenarios;
- Making quarterly findings of capital adequacy based on minimum capital standards and a risk-based standard;
- Prohibiting excessive executive compensation;
- Issuing regulations concerning capital and enforcement standards; and
- Taking necessary enforcement actions.

The Office is funded through assessments of Fannie Mae and Freddie Mac. Its operations represent no direct cost to the taxpayer. In its safety and soundness mission, the Office has regulatory authority similar to that of such other Federal financial regulators as the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Board of Governors of the Federal Reserve System.

Our audit objective was to determine whether the Office's allocation of resources over the last 3 years has been comparable to that of other financial regulators and whether the Office's staff has had responsibilities, education, expertise, salaries, other compensation, and benefits similar to those of other financial regulators. To achieve the objective, we compared the Office to the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Housing Finance Board.

RESULTS OF AUDIT

The Office's Allocation of Resources and Staffing Are Comparable to Those of Other Regulatory Agencies

During the period calendar year 2002 through September 2004, the Office was comparable to the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Housing Finance Board in its allocation of resources and in its staff's responsibilities, education, expertise, salaries, other compensation, and benefits.

Functions and Responsibilities

To compare the Office's allocation of resources to that of the other four financial regulators, we divided the operations of each into seven major business functions. We then calculated the percentage of all onboard employees performing each function. We concluded that while minor/reasonable differences exist among the agencies, the Office is comparable to the other regulatory agencies in its allocation of resources.

The following table illustrates the allocation of resources among the agencies for January through September 2004. Our analysis of staff allocations for 2002 and 2003 yielded similar results.

2004					
Major Functions	OFHEO	OTS	OCC	FDIC	FHFB
	Percentage of employees per major function				
Executive management (1)	10.18	1.60	0.89	0.58	13.27
Accounting/budget/finance (2)	6.59	0.46	2.22	8.62	4.42
Examination/supervision (3)	62.87	79.52	71.23	52.52	63.72
External (public) relations	1.80	0.46	1.45	0.38	0.00
Human resources	3.59	4.00	2.52	3.29	5.31
Legal	7.19	4.92	5.30	9.52	7.08
Information technology (4)	7.78	9.04	5.15	7.44	2.65
Other (5)	0.00	0.00	11.23	17.65	3.55
Total	100%	100%	100%	100%	100%

OFHEO – Office of Federal Housing Enterprise Oversight

OTS – Office of Thrift Supervision

OCC – Office of the Comptroller of the Currency

FDIC – Federal Deposit Insurance Corporation

FHFB – Federal Housing Finance Board

- (1) The “executive management” function includes directors of agency divisions. The Office and the Federal Housing Finance Board are significantly smaller and have fewer employees per function than the other regulators; therefore, we concluded that it was reasonable that their “executive management” function percentages would be higher than for the larger regulators. For example: In 2004, the Office had 17 of its 167 employees in its “executive management” function, and the Federal Housing Finance Board had 15 of its 113 employees in this function. In comparison, the Federal Deposit Insurance Corporation had 30 executive managers overseeing 5,200 employees, of which 2,731 employees performed one major function – “examination/supervision.”
- (2) The Office of Thrift Supervision contracts out its “accounting” function.
- (3) The Federal Deposit Insurance Corporation is responsible for a major business function that is not comparable to the Office’s functions. We recognized the staff performing this function as “other”; therefore, the percentage of Federal Deposit Insurance Corporation employees performing the “examinations” function is considerably lower than that of the other regulators because nearly 18 percent of its staff perform this unrelated business function. Also, the Office of the Comptroller of the Currency contracts out for a minor portion of its “examination/supervision” function; however, the contracted services do not materially affect the percentage for this function.
- (4) The Federal Housing Finance Board contracts out part of its “information technology” function. However, because of the nature of the contract, the Federal Housing Finance Board was not able to provide us with a full-time employee equivalent for the contracted services.
- (5) The “other” function includes all major functions of the other agencies that did equate to a function of the Office.

Education and Expertise

The education and expertise of the Office’s staff are consistent with those of other financial regulators. The Office and the other four regulatory agencies use employee qualification standards that meet or exceed the Office of Personnel Management Qualification Standards. Based on our review of the education and expertise identified in a sample of 20 resumes of the Office’s onboard employees, we concluded that the employees reviewed met or exceeded the Office’s minimum qualification standards.

Salaries, Other Compensation, and Benefits

While differences exist, the Office’s salaries and other compensation (bonuses and awards) are reasonably comparable to those of the other regulatory agencies. Using the potential salary range at each regulator for the major business functions previously identified, we compared the salaries and other compensation of the agencies. We noted wide ranges in the potential salary highs and lows, but the Office is neither consistently high nor low in its potential salaries, as compared to the other agencies (see appendix A). In addition, the Office is generally comparable to the other regulators regarding its bonuses and awards. The Office, as well as three of the other regulatory agencies, has no bonus program. The Federal Deposit Insurance Corporation offers a bonus program to its managers. However, each of the agencies has a small-dollar awards program.

The Office is also generally comparable to the other financial regulators regarding benefits. While the benefit packages differ among the five regulatory agencies, many of the elements are the same. For example, all of the agencies, including the Office, have the same Federal health and life insurance plans and the same retirement and savings plans. In one area, the Office differs from the others. The other four regulators have a long-term disability plan, but the Office does not (see appendix B).

Conclusion

The Office's allocation of resources and staffing are comparable to the other regulatory agencies evaluated. The Office is also comparable to the other agencies in its staff's education and expertise. Further, while differences exist, the Office's salaries, other compensation, and benefits are reasonably comparable to those of the other regulatory agencies.

SCOPE AND METHODOLOGY

The audit covered calendar years 2002 and 2003 and through September of calendar year 2004.

We interviewed the Office's staff to gain an understanding of its staffing during the audit period. We reviewed the Office's organizational and staffing charts, yearly budget reports for personnel expenses, vacancy announcements, job descriptions, educational requirements and expertise, employee resumes, bonus programs, and benefit plans. We also reviewed relevant Federal regulations.

We established a primary point of contact for the other four regulators and worked with the contact and other agency staff to gain an understanding of the relevant operations and staffing of the individual agencies. We also reviewed documentation from the other regulatory agencies, including staffing charts, yearly budget reports for personnel expenses, salary schedules, and benefit packages. We were unable to obtain staffing data from the Federal Housing Finance Board for 2002 and 2003; therefore, we were not able to compare the Office to this regulatory agency for these years. In addition, we relied on the explanations and documents provided by the other regulators in making the comparisons and reaching conclusions.

To determine whether the Office is comparable to other financial regulators regarding its allocation of resources and staffing, we compared it to the following regulatory agencies:

- Office of Thrift Supervision
- Office of the Comptroller of the Currency
- Federal Deposit Insurance Corporation
- Federal Housing Finance Board

To make the comparison of allocation of resources, we identified seven major business functions within the Office, and based on organizational and staffing charts, listed all on-board employees under the major function for which they perform their responsibilities. We also combined all major functions of the other agencies that did not equate to a function of the Office, and considered these functions as "Other." The eight functions are as follows:

- Executive management
- Accounting/budget/finance
- Examination/supervision
- External (public) relations
- Human resources
- Legal
- Information technology
- Other

To make the comparison of staffing characteristics and overall compensation of employees, we compared the Office to the other regulatory agencies in the areas of

- Education
- Expertise
- Salaries
- Other compensation (bonuses and awards)
- Benefits

We performed audit work from August 2004 through January 2005, at the Office's location at 1700 G Street, NW, Washington, DC, 20552. The audit was conducted in accordance with generally accepted government auditing standards.

FOLLOWUP ON PRIOR AUDITS

Audit Report #2004-KC-0001, dated September 30, 2004

A related report, “The Office of Federal Housing Enterprise Oversight Exceeds Its 60 Percent Statutory Requirement, But Has Weaknesses in Its Controls Over Allocating Costs for that Requirement,” audit report #2004-KC-0001, issued on September 30, 2004, contained one recommendation. We recommended that the Office ensure that its staff establishes and implements controls to ensure that it accurately allocates and reports its use of funding. These controls should include a reliable method of maintaining actual employee time spent on each strategic objective and a method of ensuring that actual expenses are reflected in its reporting of funds used.

On January 25, 2005, the Office provided an acceptable management decision to resolve our recommendation, outlining its plans to implement controls that would ensure that it accurately allocates and reports its use of funding. We concurred with the Office’s management decision on January 27, 2005.

APPENDIXES

Appendix A

2004 Salary Ranges

	OFHEO		OTS		OCC		FDIC		FHFB	
	Low	High	Low	High	Low	High	Low	High	Low	High
Executive management										
Managers	\$130,671	\$252,975	\$95,808	\$295,439	\$145,600	\$223,681	\$136,900	\$203,000	\$136,900	\$237,647
Staff	118,792	190,067	42,035	217,463	69,832	161,893	112,443	194,785	111,643	186,355
Support	53,737	96,293	N/A	N/A	38,714	94,951	62,837	80,882	56,354	87,799
Accounting, budget, and finance										
Managers	\$106,067	\$169,705	N/A	N/A	\$69,832	\$203,301	\$100,160	\$201,365	\$111,643	\$145,134
Staff	60,179	151,520	61,987	132,085	31,127	125,698	40,143	151,338	46,576	104,419
Support	27,228	76,765	N/A	N/A	18,457	51,362	33,580	60,245	N/A	N/A
Examinations										
Managers	\$106,067	\$190,067	\$67,878	\$253,650	\$89,940	\$203,301	\$81,383	\$203,000	\$67,542	\$211,176
Staff	67,404	169,705	31,976	186,439	31,127	125,698	35,628	169,378	67,542	155,386
Support	24,308	68,536	26,847	76,544	18,457	51,362	31,851	93,419	46,576	60,543
External (public) relations										
Managers	\$106,067	\$169,705	N/A	N/A	\$69,832	\$203,301	\$125,260	\$175,000	N/A	N/A
Staff	53,737	169,705	42,085	132,035	31,127	125,698	60,704	143,375	N/A	N/A
Support	34,146	68,536	N/A	N/A	18,457	51,362	57,332	88,058	N/A	N/A
Human resources										
Managers	\$106,067	\$169,705	\$74,324	\$172,631	\$52,751	\$203,301	\$96,507	\$186,968	\$94,913	\$145,134
Staff	75,496	151,520	36,038	172,631	31,127	125,698	29,787	141,669	46,576	124,052
Support	24,308	96,293	42,035	89,284	N/A	N/A	48,258	57,818	67,542	87,799
Legal										
Managers	\$118,792	\$190,067	\$95,808	\$217,463	\$89,940	\$203,301	\$123,639	\$203,000	\$124,237	\$186,355
Staff	60,179	169,705	26,038	186,439	38,714	161,893	39,896	176,910	94,913	145,134
Support	34,146	76,765	31,976	82,670	18,457	51,362	35,307	144,912	56,354	87,799
Information technology										
Managers	\$106,067	\$190,067	\$74,324	\$201,358	\$69,832	\$203,301	\$101,812	\$193,846	\$111,643	\$145,134
Staff	60,179	135,284	42,035	172,631	31,127	125,698	45,019	133,267	94,913	124,052
Support	34,146	68,536	38,923	76,544	18,457	51,362	37,251	60,393	N/A	N/A

*** Salaries represent the potential salary ranges for employees, not actual salaries paid.

*** "Managers" category includes employees identified as managers or supervisors.

OFHEO – Office of Federal Housing Enterprise Oversight

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N/A = Agency did not include any employees in that group

Appendix B

Comparison of Agency Benefits

ELEMENT	FDIC	FHFB	OCC	OTS	OFHEO
Onsite child care center	Yes	No	No	Yes	Yes
CSRS/FERS retirement	Yes	Yes	Yes	Yes	Yes
Dental plan	Yes	No	Yes	No	Yes
Life insurance	FEGLI	FEGLI	FEGLI	FEGLI	FEGLI
Life insurance (other)	Yes	No	Yes	No	No
Long-term disability	Yes	Yes	Yes	Yes	No
Medical plan	FEHB	FEHB	FEHB	FEHB	FEHB
Pretax: health premiums	Yes	Yes	Yes	Yes	Yes
Pretax: flexible spending account	Yes	Yes	Yes	Yes	Yes
Savings plan - TSP	Yes	Yes	Yes	Yes	Yes
Savings plans (other)	Yes	Yes	Yes	No	No
Transportation subsidy	\$100	\$100	\$100	\$100	Full Amount
Vision plan	Yes	No	Yes	No	No
Alternative/flexible work schedule	Yes	Yes	Yes	Yes	Yes
Onsite gym	Yes	No	No	Yes	Yes

***\$100 is a monthly allowance for public transportation.

CSRS – Civil Service Retirement System
 FERS – Federal Employees Retirement System
 FEGLI – Federal Employees Group Life Insurance
 FEHB – Federal Employees Health Benefits
 TSP – Thrift Savings Plan

AUDITEE COMMENTS



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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OFFICE OF THE DIRECTOR

March 10, 2005

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Region 7 Office of Audit, 7AGA
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Dear Inspector General Hosking:

Thank you for the opportunity to provide written comments on your report Audit of OFHEO's Resource Allocation and Staffing. I am pleased that you have concluded that OFHEO is comparable to the other financial regulators in its allocation of resources and staffing, and that our staff's education, expertise and compensation are also comparable with the other regulators.

We have worked diligently to strengthen OFHEO's capacity to regulate Fannie Mae and Freddie Mac and your report confirms that we are moving in the right direction. If anything, your comparison of staff resources per major function across regulators underestimates the direct resource commitment OFHEO has made to regulate these two Enterprises. In addition to our staff resources in the examination and capital areas, the majority of OFHEO's legal staff is devoted to regulatory activities and OFHEO's senior executives are required to be "working managers" in their fields of expertise. OFHEO's support and infrastructure services are also critical to OFHEO's success in achieving its mission.

OFHEO will continue in its efforts to strengthen oversight of the Enterprises.

Sincerely,

A handwritten signature in black ink that reads "Mark Kinsey".

Mark Kinsey
Associate Director
Office of Finance and Administration