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United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, DC 20510-6275

KOLAN L. DAVIS, *Chief Counsel and Staff Director*
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March 24, 2016

VIA ELECTRONIC TRANSMISSION

The Honorable Laura S. Wertheimer
Inspector General
Federal Housing Finance Agency
400 Seventh Street, SW
Washington, DC 20024

Dear Inspector General Wertheimer:

The Senate Judiciary Committee is examining a number of issues related to the Federal Housing Finance Agency, Office of Inspector General (FHFA-OIG). As you know, the Committee sent a letter to you on October 8, 2015, that asked about significant organizational changes that had been made in your office.¹ Those organizational changes had been detailed in the FHFA-OIG's semiannual reports to Congress. One of the major changes noted in the semiannual reports, and in your response to the Committee of October 29, 2015, is a restructuring of the Office of Audit (OA).

With respect to the changes made at OA, you explained that you "observed that OA struggled to complete its audits within the timeframes established, even when its resources were supplemented..."² In particular, you stated that over a one year period (October 28, 2014 through October 28, 2015) OA "published no white papers or audit reports... save for three statutory audits, two of which were conducted and completed by an external audit firm."³

In response, you determined that "restructuring OA into an office consisting of smaller, leaner teams capable of turning out targeted, timely audits was needed to increase FHFA-OIG oversight."⁴ In order to effectuate this plan, you detailed or reassigned FHFA-OIG auditors to other offices and authorized a voluntary separation program (i.e., an employee buy-out program). These actions, along with other separations at the agency, ultimately resulted in OA being reduced from 36 FTE as of September 30, 2014, to 9 FTE just over one year later, as of October 29, 2015.

¹ Letter from Charles E. Grassley, Chairman, U.S. Senate Committee on the Judiciary, to Laura S. Wertheimer, Inspector General, Federal Housing Finance Agency (Oct. 8, 2015).

² Letter from Laura S. Wertheimer, Inspector General, Federal Housing Finance Agency, to Charles E. Grassley, Chairman, U.S. Senate Committee on the Judiciary (Oct. 29, 2015), at 5.

³ *Id.*

⁴ *Id.*

According to your website, it appears that the lack of production from OA occurred after, not before, your tenure. Here is a summary of the work published on your website for the calendar years (CY) before and after you were confirmed:

- CY 2011: 4 audit reports
- CY 2012: 13 audit reports
- CY 2013: 13 audit reports
- CY 2014: 18 audit reports (all in the first 10 months)

On September 24, 2014, you were confirmed as Inspector General

- CY 2015: 3 audit reports and 3 reports from the newly created “Office of Compliance”

This precipitous decline in the level of work product produced under your leadership is troubling. After our exchange of letters, the Committee was approached by several witnesses and has since interviewed a number of individuals who have provided accounts regarding the situation at FHFA-OIG and, in particular, at OA that also contradict the representations in your letter.

Witnesses have indicated that immediately after coming on board, you canceled as many as a half-dozen on-going or near-completed audits or other projects in October or November of 2014. In addition, during this time, significant OA resources were apparently dedicated to producing a white paper reviewing Fannie Mae and Freddie Mac’s 97% Loan-to-Value Program (3% White Paper). The 3% White Paper was allegedly drafted by OA and sent to FHFA for official agency comment in early March 2015. The response from FHFA was received by your office in late March 2015, but your office failed to publish the report. Committee staff have received allegations that there were other products that your office also failed to publish as well as products to which OA staff contributed that were published by other offices.

Beyond these details of work performance in OA, individuals whom Committee staff have interviewed have suggested a number of personnel actions that deserve further scrutiny. These include, for example, the selection and hiring of candidates who lacked advertised position qualifications and the basis for the authority to conduct a buyout at OA through your voluntary separation program, among others. As such, Committee staff will continue interviewing FHFA-OIG employees and others likely to possess relevant information. Your Chief Counsel, Leonard DePasquale, previously reached out to my staff to offer his assistance in facilitating interviews with current FHFA-OIG officials. His offer of assistance is greatly appreciated.

Accordingly, I request that you make the following individuals available for interviews with Committee staff:

1. Bryan Saddler
2. Tewana Wilkerson
3. Richard Parker

4. Adam Silverman
5. Rene Febles

In your letter of March 21, 2016, you also offered to meet with Committee staff to discuss issues affecting FHFA-OIG. This offer is greatly appreciated and I ask you reach out to my staff to schedule such a discussion.

In addition, please produce no later than April 7, 2016 the following:

1. Any and all Close-Out Memoranda for any audit terminated in the FHFA-OIG from September 2014 to the present.
2. With respect to the 3% White Paper, please provide:
 - a. A copy of the 3% White Paper provided to FHFA for comment.
 - b. All records related to FHFA agency comments on the 3% White Paper.
 - c. Any subsequent revisions to the 3% White Paper.
 - d. An explanation of why the 3% White Paper was not published.
3. A list of any other white papers completed but never published with an explanation for why each white paper was never published.
4. A list of any other OA products or initiatives that were discontinued, terminated, or not published from September 2014 to the present and why each product or initiative was discontinued, terminated, or was not published.
5. An explanation of why the Civil Fraud Initiative was moved from the Office of Audits to the Office of Investigations in November 2014.

Please contact Paul Junge of my Committee staff at (202) 224-5225 as soon as possible to begin scheduling interviews. Thank you for your prompt attention to these important matters.

Sincerely,



Charles E. Grassley
Chairman
Senate Judiciary Committee

cc:

The Honorable Patrick Leahy
Ranking Member
Senate Committee on the Judiciary

The Honorable Michael E. Horowitz
Chair of Council of the Inspectors General on Integrity and Efficiency
1717 H Street, NW, Suite 825
Washington, D.C. 20006

Carolyn N. Lerner
Special Counsel
United States Office of Special Counsel
1730 M Street, NW
Washington, DC 20036