

Federal Housing Finance Agency
Office of Inspector General



**FHFA Did Not Always Follow its
Policies for Monetary Awards,
Recruitment Bonuses, and Retention
Allowances during
Fiscal Years 2019 and 2020;
FHFA's Excellence Awards Were
Not Included in Agency Policy**



AUD-2021-008

June 17, 2021

Executive Summary

The Federal Housing Finance Agency (FHFA or Agency) provides monetary awards to recognize and reward employee contributions and accomplishments, individually or in teams, that contribute significantly to the Agency's mission and strategic goals. FHFA also offers recruitment bonuses and retention allowances to attract, retain, and motivate highly competent employees who are able to accomplish its mission and goals. During fiscal years 2019 and 2020 (review period), FHFA paid \$637,275 in monetary awards (excluding Time-Off Awards), recruitment bonuses, and retention allowances and awarded 114 Time-Off Awards totaling 2,236 hours to its employees.

We performed this audit to determine whether FHFA followed its policies and procedures when granting and distributing monetary awards, recruitment bonuses, and retention allowances during the review period. We found exceptions related to (1) recommendations and approvals for monetary awards and (2) justifications for recruitment bonuses and retention allowances. Additionally, we found the Agency's Excellence Awards, a program launched in September 2019, were not formalized in written policy.

We make two recommendations in this report to address these shortcomings. In a written management response, FHFA agreed with our recommendations.

This report was prepared by Heath Wolfe, Director of Audit Operations, with the assistance of Abdil Salah, Assistant Inspector General for Audits, and 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 FHFA, Congress, the Office of Management and Budget, the Government Accountability Office (GAO), and others and will be posted on our website, www.fhfaoig.gov, and www.oversight.gov.

Marla A. Freedman, Senior Audit Executive /s/

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ABBREVIATIONS

FHFA or Agency	Federal Housing Finance Agency
GAO	Government Accountability Office
OHRM	Federal Housing Finance Agency Office of Human Resources Management
OIG	Federal Housing Finance Agency Office of Inspector General
OQA	Federal Housing Finance Agency Office of Quality Assurance

BACKGROUND.....

FHFA’s Office of Human Resources Management (OHRM) manages the Agency’s monetary awards, recruitment bonus, and retention allowance programs.

Federal Agencies are Required To Clearly Document Internal Controls

FHFA’s management is required by the *Standards for Internal Control in the Federal Government* (the Green Book), under the Control Activities component of internal control, to design control activities to achieve the Agency objectives (e.g., to recognize employee contributions for accomplishments that contribute significantly to FHFA’s mission and strategic goals) and respond to risks (e.g., the Awards Programs are not administered in a fair and equitable manner consistent with policy). As an example of a control activity, management clearly documents internal control. The documentation may appear in management directives, administrative policies, or operating manuals.

FHFA’s Guidance for Monetary Awards, Recruitment Bonus, and Retention Allowance Programs

FHFA’s written policies and procedures for its programs include: FHFA Policy No. 115, Awards; FHFA Policy No. 103, Executive Compensation; FHFA Policy No. 102, Non-Executive Compensation; and OHRM’s Processing Personnel Actions Standard Operating Procedure.

FHFA’s Monetary Awards Program

The following monetary awards were available to FHFA employees during fiscal years 2019 and 2020 (the review period):

- On-the-Spot Award – This award, which may be given as an individual or group award, is used by FHFA to recognize instances of high-quality customer service, extraordinary innovation, creativity in addressing a critical need or difficult problem, or appreciation for a noteworthy or exceptional effort related to a single, short-term assignment, event, circumstance, or special effort. This award is a cash payment of up to \$750 approved by an employee’s second-level supervisor. Employees were not allowed to receive more than two On-the-Spot Awards each year.

- Time-Off Award¹ – The same criteria for on-the-spot awards also can give rise to time-off awards. This award grants up to 40 hours of time off from duty and is normally approved by an employee’s second-level supervisor; awards of 32 or more hours require the approval of the Director. Employees were not allowed to receive more than two Time-Off Awards each year.
- Distinguished Service Award – This is the second highest FHFA award that an employee may receive and must be approved by the Director. This award, of up to \$5,000, is used by the Agency to recognize significant service or achievement of major importance to FHFA, programs, functions, or mission. Examples include: distinguished leadership in program or goal accomplishment; efforts that led to significant and measurable effect on the creation, development, or implementation of an FHFA program or function that significantly benefits FHFA or its staff; or exemplary service to the Federal Government over a sustained period (3 years or more).
- Director’s Award – This is the highest Agency award that an employee may receive and must be approved by the Director. This award, of up to \$7,500, is used by FHFA to recognize service of exceptional value, such as a major contribution to one or more FHFA programs. Examples include: exceptional leadership or unique administrative or technical accomplishments, or outstanding achievement in the administration or management of one or more Agency programs or functions; creation, development, improvement, or implementation of systems or information that had extraordinary results or benefits to FHFA; or exemplary response to an emergency situation.
- Excellence Awards – This award, created in 2019, is used by FHFA to recognize employees who went above and beyond in the following categories: individual contribution, management, teamwork, innovation, internal operations, administrative professionalism, and diversity and inclusion. FHFA does not have written guidance for these awards, but in practice the recommending officials prepared written nominations for each of the awards to be reviewed by the review committee for each category. The review committees score the nominations and submit a list of finalists to the Director for his determination. Winners receive \$3,000 and finalists receive \$1,000 in all categories except teamwork. For teamwork, the winners receive \$750 each and finalists \$250 each.

For the first four of these award categories, written FHFA policies and procedures require that recommending officials complete an FHFA Incentive Awards Form in which they propose an

¹ Time-Off Awards are considered by FHFA to be monetary awards, but are not monetized until the time-off is used.

award and submit the form to the approving official. The recommending official must justify the award by describing how the employee met the requirements for the award. Approving officials must approve or disapprove the award and forward the completed form to OHRM for review and processing. Recommending officials must obtain concurrence from the supervisor and office of record when nominating an employee who he or she does not permanently supervise. FHFA does not have written guidance for the process used to make Excellence Awards.

FHFA's Recruitment Bonus and Retention Allowance Programs

Recruitment bonuses and retention allowances were available to FHFA employees during the review period. FHFA has adopted written policies and procedures for an award in each of these categories.

- **Recruitment Bonus** – A recruitment bonus may be used by FHFA when a position has proven to be a recruitment challenge and is critical to the Agency's mission. The bonus is a lump-sum cash payment of up to 25 percent of an employee's FHFA salary. If accepted by the employee, a recruitment bonus requires the recipient to sign a service agreement with the Agency.
- **Retention Allowance** – A retention allowance may be used by FHFA to retain exceptionally talented or knowledgeable employees and may be granted if an employee has been offered non-FHFA employment or has applied for retirement.² The allowance may be paid either biweekly throughout a one-year period, in addition to the employee's regular salary, or as a lump-sum payment at the beginning of the retention period. Retention allowances may not exceed 25 percent of the employee's annual FHFA salary. If accepted by the employee and paid as a lump-sum, the recipient is required to sign a service agreement with the Agency.

The head of each major FHFA organizational unit, working with his or her assigned OHRM Account Manager, must submit both a written justification for the recruitment bonus or retention allowance and the appropriate service agreement, when applicable, to the OHRM Director. Recruitment bonuses and retention allowances for non-executive employees less than or equal to \$15,000 require the OHRM Director's approval; recruitment bonuses and retention allowances for these employees greater than \$15,000 require the Chief Operating Officer's approval.

² For executive employees who meet this criteria, in addition to being offered non-FHFA employment or applying for retirement, employees may be granted a retention bonus if they intend to retire.

Prior Internal Management Reviews of Two Monetary Awards Program

FHFA's Office of Quality Assurance (OQA) performed two reviews of the Agency's On-the-Spot and Time-Off Awards. The first review was requested by the Agency's former Acting Chief Operating Officer and resulted in a report, dated May 14, 2019, with the following four observations:

- The Agency's Incentive Awards forms were often incomplete regarding the type of award and the printed name or title of the recommending or approving officials;
- FHFA's Awards Policy, dated October 23, 2014, does not provide clear instructions as to the completion of the award justification;
- The Agency's Awards Policy requires that an award must be justified, but it does not require the award justification attachment be signed or dated by the recommending or approving official; and
- FHFA's Awards Policy does not define the term "official" and is not specific on who can recommend a monetary award.

Based upon the results of OQA's May 2019 report, the Agency's OHRM Director requested another review of FHFA's On-the-Spot and Time-Off Awards. OQA's second report, dated December 12, 2019, reported four observations:

- The Incentive Awards Form was not properly completed for 15 of the 16 sampled awards, echoing the prior observation;
- The award justification on the sampled awards forms was not consistently completed, repeating the earlier observation;
- The Agency's Awards Policy does not define the term "official," repeating the earlier observation; and
- The Awards Policy does not specify whether an approving official can or cannot sign-off on an award when they are also recommending the award, and the recommending officials and the approving officials were the same individual for five sampled awards (a new observation).

Both of OQA's reports included recommendations to address the previously mentioned observations, and the Agency's former Acting Chief Operating Officer and the OHRM Director agreed to implement them. During our audit, we found no evidence that the recommendations had been implemented. OQA's Manager advised us that OQA did not

know the status of the recommendations and anticipated following up on them during the third quarter of calendar year 2021.

FACTS AND ANALYSIS

During fiscal years 2019 and 2020, FHFA paid \$637,275 in monetary awards (excluding Time-Off Awards), recruitment bonuses, and retention allowances to its employees. Those awards were distributed among the following categories:

FIGURE 1. FHFA’S MONETARY AWARDS, RECRUITMENT BONUSES, AND RETENTION ALLOWANCES PAID - FISCAL YEARS 2019 AND 2020

Program	Number	Amount Paid
Monetary Awards:		
On-the-Spot	529	\$323,525
Distinguished Service	0	0
Director’s Award	1	7,000
Excellence	84	86,250
Recruitment Bonus	31	200,500
Retention Allowance	<u>2</u>	<u>20,000</u>
Totals	<u>647</u>	<u>\$637,275</u>

During the review period, the Agency also awarded 114 Time-Off Awards totaling 2,236 hours to its employees.

FHFA’s Policies and Procedures for its Programs Were Not Always Followed

For this audit, we tested randomly selected samples comprised of 60 monetary awards (\$49,700), 7 recruitment bonuses (\$45,500), and 15 Time-Off Awards (342 hours). We also tested the 2 retention allowances (\$20,000) paid by FHFA during the review period. We tested these transactions for compliance with applicable FHFA policies for approvals, justifications, and other program requirements. For 55 of the 60 monetary awards, 4 of the 7 recruitment bonuses, and all 15 Time-Off Awards selected, we found that they met the requirements for which we tested.

We now explain the exceptions we found for the 5 monetary awards, 3 recruitment bonuses, and 2 retention allowances. During our audit, we provided FHFA management with the details of each exception identified.

Monetary Awards (Five Transactions)

FHFA's Awards Policy states that when the recommending official for an award is not the supervisor of record for the employee for whom the award is being recommended, the recommending official must obtain the supervisor of record's concurrence. Additionally, the award nomination must be approved by the second-level supervisor. We found that recommending officials did not obtain the requisite concurrence from the supervisors of record for 5 of the 60 monetary awards tested; of these 5 exceptions, 2 also lacked approval by the second-level supervisor. These five monetary awards with exceptions totaled \$17,150.

Recruitment Bonuses (Three Transactions)

FHFA's Non-Executive Compensation Policy states that the Agency may offer a recruitment bonus when a position has proven to be a recruitment challenge and is critical to the Agency's mission. The policy also states the head of the relevant major FHFA organizational unit, working with his or her assigned OHRM Account Manager, must submit a written justification outlining the specific recruitment justification(s) for the need for the recruitment bonus. We found that, for 3 of the 7 recruitment bonuses tested and paid to non-executive hires for mission-critical positions, the supporting documentation did not cite that the positions were recruitment challenges, which is the other prong of the policy. These three recruitment bonuses with exceptions totaled \$15,000.

Retention Allowances (Two Transactions)

FHFA's Non-Executive Compensation Policy states that the Agency may offer a retention allowance if an employee has been offered non-FHFA employment or has applied for retirement. We found, for the two retention allowances we tested (both for the same non-executive employee), neither included documentation showing that the employee was offered non-FHFA employment or applied for retirement. Instead, the Agency's justification for both retention allowances cited the employee "to be a potential flight risk." An OHRM official acknowledged that these two retention allowances were paid, even though the criteria in the policy was not met:³ the affected employee was not offered non-FHFA employment nor applied for retirement. These two retention allowances with exceptions totaled \$20,000.

³ In a technical comment to a draft of this report, the Agency acknowledged that its Non-Executive Compensation Policy was not "strictly" met. FHFA explained that, after "lengthy" discussions between senior management, the threat of the employee leaving was considered significant enough for the OHRM Director to exercise his authority under the policy to correct this deficiency. However, this explanation does not satisfy the Agency's policy because, under the Non-Executive Compensation Policy, only the FHFA Director, not the OHRM Director, has authority to grant such exceptions.

FHFA Has No Written Policy Governing Excellence Awards

As discussed previously, FHFA’s Excellence Awards were not formalized in written policy. The Agency launched its Excellence Awards program on September 30, 2019. During the review period, 84 Excellence Awards, totaling \$86,250, were distributed. Our sample of 60 monetary awards included 10 Excellence Awards, totaling \$11,250; we found no exceptions to the practice outlined to us by OHRM, described above, for these tested transactions.

An OHRM official reported that OHRM is planning to include this program in a revised Awards Policy.

FINDINGS

- FHFA did not always follow its written policies for monetary awards, recruitment bonuses, and retention allowances.
- FHFA’s Excellence Awards program was not formalized in written policy.

CONCLUSION

While we identified exceptions to the Agency’s written policies for monetary awards, recruitment bonuses, and retention allowances, we determined that the exceptions were not systemic. In our view, these exceptions occurred with sufficient frequency to warrant heightened management attention to program requirements. Additionally, FHFA did not have written policy for its Excellence Awards.

RECOMMENDATIONS

We recommend that FHFA:

1. Reinforce FHFA’s program policies and procedures through a reminder to FHFA supervisors and senior officials involved in initiating, reviewing, and approving monetary awards, recruitment bonuses, and retention allowances to:
 - Obtain the requisite concurrence from the supervisors of record and second-level supervisors, when applicable, for monetary awards,

- Ensure documentation supporting recruitment bonuses for non-executive, mission-critical positions cite how the positions were recruitment challenges, and
 - Ensure documentation supporting retention allowances cite that non-executive employees were offered non-FHFA employment or applied for retirement.
2. Ensure that the Excellence Awards program is included in the planned revision to the FHFA Awards Policy before such awards are made again.

FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA an opportunity to respond to a draft of this audit report. In its management response, which is included in the Appendix to this report, the Agency agreed with our two recommendations. As corrective actions, FHFA plans to:

1. Remind Agency stakeholders and complete the communication by September 30, 2021.
2. Finalize the planned revision to the FHFA Awards Policy by March 31, 2022.

We consider the Agency's planned corrective actions responsive to our recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether FHFA followed Agency policies and procedures when granting and distributing monetary awards, recruitment bonuses, and retention allowances. The scope of the audit is fiscal years 2019 and 2020.

To address our objective, we:

- Researched applicable policies and procedures applicable to FHFA’s programs;
- Reviewed GAO’s *Standards for Internal Control in the Federal Government*;⁴
- Determined the dollar amounts, number of transactions, and other relevant data for FHFA’s programs for fiscal years 2019 and 2020;
- Interviewed FHFA’s OHRM staff and other appropriate officials responsible for FHFA’s programs about (a) the nature and extent of monitoring they perform over the programs and (b) whether and how management communicates to employees and approving officials its views on the proper use of Agency funds for the programs;
- Determined whether FHFA and/or a third-party service provider conducted any compliance testing of FHFA’s programs;
- Reviewed GAO’s reports on its audits of FHFA’s financial statements for fiscal years 2020 and 2019, and inquired of its staff about the scope and results of any testing of the programs done for the audits;
- Randomly selected nongeneralizable samples comprised of (1) 60 monetary awards totaling \$49,700 from a universe of 614 such awards totaling \$339,145, (2) 7 recruitment bonuses totaling \$45,500 from a universe of 31 such bonuses totaling \$200,500, and (3) 15 Time-Off Awards totaling 342 hours from a universe of 114 such awards totaling 2,236 hours. We also tested the 2 retention allowances totaling \$20,000 paid by FHFA during the review period. For the selected samples, we tested for compliance with applicable provisions of FHFA’s Awards, Executive Compensation, and Non-Executive Compensation policies;
- Assessed the reliability of data received for this audit by (1) reviewing the data for obvious errors and incompleteness; (2) reviewing existing information about the data and the systems that produced them, and (3) interviewing Agency officials

⁴ For this audit, we determined that the control activities component of internal control and the design control activities principle were significant to the audit objective.

knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report; and

- Assessed the Agency’s internal controls related to the monetary awards, recruitment bonus, and retention allowance programs. Specifically, we evaluated the programs’ control activities and monitoring.

We conducted this performance audit between September 2020 and June 2021 in accordance with generally accepted government auditing standards. Those standards require that audits be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objective.

APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Marla Freedman, Senior Audit Executive

FROM: Andrew M. Wasilisin, Human Resources Director **ANDREW WASILISIN** Digitally signed by ANDREW WASILISIN Date: 2021.06.11 13:59:53 -04'00'

SUBJECT: Draft Audit Report: *FHFA Did Not Always Follow its Policies for Monetary Awards, Recruitment Bonuses, and Retention Allowances during Fiscal Years 2019 and 2020; FHFA's Excellence Awards Were Not Included in Agency Policy*

DATE: June 11, 2021

Thank you for the opportunity to review above-referenced Office of Inspector General (OIG) draft audit report (Report). The objective of the audit was to determine whether FHFA followed its policies and procedures when granting and distributing monetary awards, recruitment bonuses, and retention allowances. I am pleased that the audit concluded that the exceptions identified during testing were not systemic.

Management's responses to the Report's recommendations are below.

Recommendation No. 1: *Reinforce FHFA's program policies and procedures through a reminder to FHFA supervisors and senior officials involved in initiating, reviewing, and approving monetary awards, recruitment bonuses, and retention allowances to:*

- *Obtain the requisite concurrence from the supervisors of record and second-level supervisors, when applicable, for monetary awards,*
- *Ensure documentation supporting recruitment bonuses for non-executive, mission-critical positions cite how the positions were recruitment challenges, and*
- *Ensure documentation supporting retention allowances cite that non-executive employees were offered non-FHFA employment or applied for retirement.*

Management Response: FHFA agrees to the recommendation to remind stakeholders and will complete the communication by September 30, 2021.

Recommendation No. 2: *Ensure that the Excellence Awards program is included in the planned revision to the FHFA Awards Policy before such awards are made again.*

Management Response: FHFA agrees with the recommendation and will finalize the planned revision to the FHFA Awards Policy by March 31, 2022.

I would like to acknowledge the dedicated OIG staff that worked with FHFA during this audit.

ADDITIONAL INFORMATION AND COPIES.....

For additional copies of this report:

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

To report potential fraud, waste, abuse, mismanagement, or any other kind of criminal or noncriminal misconduct relative to FHFA's programs or operations:

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- 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