

Federal Housing Finance Agency
Office of Inspector General



FHFA Adhered to Its Corrective Actions for Hiring Pathways Interns

Compliance Review • COM-2023-002 • January 26, 2023



COM-2023-002

January 26,
2023

Executive Summary

The Federal Housing Finance Agency (FHFA/Agency) participates in the Pathways program, which – among other things – creates paid summer internship opportunities in federal agencies for college students and recent graduates. Our March 2019 Management Alert regarding FHFA’s implementation of the Pathways internship program found that Agency employees had improperly sought to influence the hiring of relatives for internship positions.

FHFA implemented several corrective actions in response to the Management Alert’s recommendations, including: (1) establishing a Nepotism and Fraternalization Policy that requires all employees to disclose whether they have an “applicable relationship” (e.g., familial) with other employees, including interns and applicants; (2) reminding Agency employees of the policy’s requirements in annual emails regarding the Pathways internship program; (3) requiring written certifications from hiring and HR officials for the proposed hiring of an FHFA employee’s relative for the Agency’s summer internship program; and (4) requiring the Agency to execute agreements with Pathways interns that specify their schedules and duties. Based on these actions, we closed the recommendation on September 3, 2020.

We initiated this compliance review to test FHFA’s implementation of these pledged corrective actions. From October 2020 through July 2022 (the review period), FHFA hired 49 Pathways interns, including two who were related to Agency employees. We examined the Agency’s files for each of these interns, as well as other FHFA records, to assess the Agency’s compliance with its commitments.

We found that FHFA adhered to its corrective actions, including its obligations to remind employees of its policy and to obtain the required documentation from both interns and HR officials. We also found that neither of the two FHFA employees who had an applicable relationship complied with the Nepotism and Fraternalization Policy’s requirement that they disclose it.

FHFA’s Office of General Counsel (OGC) stated that a separate Agency policy requires Pathways interns to disclose whether they are related to existing employees and that, in the present case, the interns had complied with that policy. Accordingly, FHFA was aware of the relationships, even without the required disclosures from the two FHFA employees.

We believe the Nepotism and Fraternalization Policy’s employee disclosure requirements are clear and help ensure the integrity of the intern hiring



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process. In fact, such employee disclosures could serve as a supplemental control to help FHFA verify the accuracy of the interns' disclosures and identify all employees who may have applicable relationships with them.

We are not reopening any of the recommendations from our 2019 Management Alert because FHFA adhered to its corrective actions. However, we believe that FHFA has a responsibility to ensure that employees who have an applicable relationship with Pathways interns comply with the Nepotism and Fraternalization Policy's disclosure requirements, and we will monitor its efforts to do so.

This report was prepared by Wesley M. Philips, Senior Policy Advisor, and Patrice Wilson, Senior Investigative Evaluator. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to this report's preparation.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaoig.gov.

/s/

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ABBREVIATIONS

Agency or FHFA	Federal Housing Finance Agency
OGC	FHFA Office of General Counsel
OHRM	FHFA Office of Human Resource Management
OIG	FHFA Office of Inspector General
OPM	Office of Personnel Management
Review Period	October 1, 2020, through July 31, 2022

BACKGROUND

The Pathways Internship Program and Its Requirements Pertaining to Interns Who Are Related to Agency Employees

In 2010, President Obama established the federal Pathways internship program that gives participants the opportunity for paid summer internships with participating federal agencies. The Office of Personnel Management (OPM), which promulgated the rules governing the Pathways internship program, notes that the program “provides students . . . with paid opportunities to work either part- or full-time in agencies and explore career paths related to their academic fields of study or career interests.”¹ The Pathways program’s implementing regulations conditionally permit the hiring of interns related to current federal employees:

(f) Employment of relatives. In accordance with part 310 of this chapter, a Pathways Participant may work in the same agency with a relative when there is no direct reporting relationship and the relative is not in a position to influence or control the Participant’s appointment, employment, promotion or advancement within the agency.

FHFA participates in the program and hires college students and recent graduates as interns.² Accordingly, it must adhere to applicable OPM regulations concerning the hiring of Agency relatives as interns in the program.

Our 2019 Management Alert Found that FHFA Lacked Policies to Prevent Favoritism in the Hiring of Relatives for Pathways Internship Positions

In a March 2019 Management Alert,³ we identified instances where FHFA employees sought to influence the hiring of their relatives in 2017 and 2018 as Pathways interns by advocating on their behalf. We also found cases where FHFA employees afforded preferential treatment

¹ OPM, *Pathways Programs Handbook*, at 23 (Aug. 2016).

² Exec. Order No. 13562, Recruiting and Hiring Students and Recent Graduates, 75 Fed. Reg. 82585 (Dec. 30, 2010). The Executive Order found that “[t]he existing competitive hiring process for the Federal civil service . . . is structured in a manner that, even at the entry level, favors job applicants who have significant previous work experience. This structure, along with the complexity of the rules governing admission to the career civil service, creates a barrier to recruiting and hiring students and recent graduates. It places the Federal Government at a competitive disadvantage compared to private-sector employers when it comes to hiring qualified applicants for entry-level positions.”

³ OIG, *FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees* (March 26, 2019) (OIG-2019-004).

to individuals seeking Pathways internships in 2017 and 2018 who were relatives of other FHFA employees.

FHFA-OIG made a total of six recommendations to remedy these deficiencies, all of which FHFA accepted. Four of the recommendations are pertinent to this compliance review:

- Recommendation 1: Develop, implement, and circulate a written policy to promote compliance with laws and regulations regarding the hiring of relatives of Agency employees, including for summer internship positions. That policy ought to clearly explain the scope of the prohibition on advocating or otherwise interceding on behalf of a relative and on preferential treatment in the hiring of a relative of an Agency employee.
- Recommendation 3: Reinforce the written policy on the hiring of relatives in the annual email to FHFA employees about summer internship opportunities.
- Recommendation 4: Require written certifications from hiring and HR officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee, in which each official certifies, to the best of his or her knowledge:
 - After reasonable inquiry, there is no evidence that an FHFA employee advocated or otherwise interceded on behalf of a relative for a summer internship position;
 - After reasonable inquiry, there is no evidence that the hiring official provided preferential treatment to a relative of an FHFA employee for a summer internship position.
- Recommendation 5: Execute Participant Agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.⁴

FHFA Took Corrective Actions in Response to the 2019 Management Alert Recommendations

FHFA took the following corrective actions in response to our 2019 Management Alert’s recommendations:

- FHFA promulgated the Nepotism and Fraternalization Policy, effective July 18, 2019, which applies to all FHFA applicants, interns, and employees. It prohibits employees

⁴ This regulation requires that agencies execute written Participant Agreements with each Pathways program participant. The Agreements must include, among other things, a general description of duties, work schedules, appointment length, training requirements, and eligibility requirements for noncompetitive conversion to term or permanent competitive service.

from advocating for the hiring of any individual with whom they have an “applicable” relationship, which is defined as a situation “...where an employee and another employee, an applicant, or an FHFA contractor employee are currently relatives; dating each other, in a romantic, sexual, or otherwise intimate relationship, or married to each other; or share a financial interest, such as owning property together.” The policy further prohibits the establishment of a supervisory relationship in such situations. The policy also states that “[a]ll employees are required to report the existence of an applicable relationship they are involved in to either their supervisor or OGC’s Ethics Office as soon as they know of the relationship.”

- FHFA’s Office of Human Resource Management (OHRM) committed to send annual emails to all Agency employees that reinforced rules regarding the hiring of relatives in the summer internship program.
- In fiscal year 2019, OHRM began requiring written certifications from hiring and HR officials for the proposed hiring of an FHFA employee’s relative for the Agency’s summer internship program.⁵
- Finally, OHRM undertook to execute agreements with all Pathways interns, consistent with 5 C.F.R. § 362.106 (referred to as Summer Internship Participant Program Agreements). These agreements include, among other things, descriptions of the interns’ schedules and duties.

Based on these actions, we closed the recommendations on September 3, 2020.

FINDINGS

We initiated this compliance review in August 2022 to determine whether, from October 1, 2020, through July 31, 2022 (the review period), FHFA adhered to the corrective actions referenced above.

To make this determination, we reviewed information pertaining to the 49 Pathways interns FHFA hired during the review period. Of these 49 interns, 2 are related to current FHFA employees and thus are in “applicable relationships.”

⁵ In closing Recommendation 4 from OIG-2019-004, FHFA provided a template for the Certification for Selection of an FHFA Relative, which includes declarations that no one advocated for, interceded, or gave preferential treatment to a relative of an FHFA employee. The template also includes a section for the hiring official to provide a justification for the selection of an FHFA employee’s relative.

1. FHFA Adhered to the Corrective Actions for the Hiring of Pathways Interns

OHRM met its commitment to reinforce annually to all Agency employees the policy's rules regarding the hiring of relatives for the Pathways summer internship program. On February 25, 2021, OHRM reinforced the policy in its "Fresh Facts" newsletter to Agency employees. Additionally, on February 1, 2022, the Acting Director of OHRM sent a notice to Agency employees on hiring Pathways summer interns, reminding them of the Agency's policy on the hiring of relatives. Two days later, on February 3, 2022, OHRM again reinforced the policy in its "Fresh Facts" newsletter to Agency employees.

Moreover, OHRM officials signed certifications for the two Pathways interns during our review period who were identified as being in applicable relationships with current FHFA employees.⁶ By doing so, the OHRM officials attested that they did not provide preferential treatment to those two interns in the hiring process and that they found them to be qualified for their positions.

Finally, OHRM executed Summer Internship Participant Program Agreements with each of the 49 Pathways interns hired during the review period.

2. The Two Employees Who Were Related to Pathways Interns Did Not Submit the Required Disclosure Reports to FHFA

As noted above, during our review period, FHFA identified two Pathways interns, each of whom was related to an Agency employee. OIG requested the disclosure reports, which the two Agency employees were required to submit pursuant to the Nepotism and Fraternalization Policy, regarding the existence of their applicable relationships with the two interns. OHRM stated that they did not have such disclosure reports. The Agency does not appear to have taken any steps to remind these two employees of the requirement that they notify FHFA of applicable relationships when they become aware of them. In the present case, the employees would have "become aware," presumably, at the time the interns in question submitted their applications or thereafter.

⁶ FHFA officials said that the control in place to identify whether Pathways program interns are related to existing Agency employees is Box 14 on Form 306, which requires applicants for federal positions to identify whether they have relatives who are existing employees. We reviewed Form 306 for each of the 49 interns during our review period and verified FHFA's representation that two interns are related to existing employees.

OGC observed that because FHFA’s corrective action requires interns to disclose applicable relationships with existing employees,⁷ the Agency was already aware of the two applicable relationships, even without disclosures from the two employees.

We acknowledge that intern disclosures are critical in facilitating OHRM’s capacity to identify employees who have applicable relationships with Pathways interns. We further acknowledge that, in the present instances, the interns made the required disclosures in their applications, thereby putting the Agency on notice of the applicable relationships.

However, we also believe that the existing disclosure requirements in the Nepotism and Fraternalization Policy are clear and apply to all employees without qualification. Moreover, these disclosures help ensure the integrity of the intern hiring process. In fact, such disclosures can serve as a supplemental control to help OHRM verify the accuracy of the interns’ disclosures and identify all employees who may have applicable relationships with Pathways interns.

CONCLUSIONS

We are not reopening the recommendations from our 2019 Management Alert because FHFA adhered to its agreed-to corrective actions. However, we believe that FHFA has a responsibility to ensure that employees who have an applicable relationship with Pathways interns comply with the Nepotism and Fraternalization Policy’s disclosure requirements and we will monitor its efforts to do so. We encourage the Agency to remind the employees in question of their continued obligations under the policy.

⁷ As noted earlier, Form 306 also requires applicants for federal positions to identify whether they are related to existing agency employees.

OBJECTIVE, SCOPE, AND METHODOLOGY

We initiated this compliance review in August 2022 to determine whether, from October 1, 2020, through July 31, 2022, FHFA followed the policies and practices it established as corrective actions in response to the four referenced recommendations from our Management Alert.

To conduct our work, we reviewed hiring documentation provided by FHFA for the population of Pathways interns hired during the review period. We also interviewed FHFA officials.

We conducted our compliance review from August 2022 through October 2022 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (December 2020), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency.

We provided a draft of this report to FHFA for its review and comment.

ADDITIONAL INFORMATION AND COPIES.....

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