Report of Administrative Inquiry into Allegations of Misconduct by the FHFA Director
The Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG) received Hotline complaints alleging misconduct by the FHFA Director. OIG conducted an administrative inquiry into these allegations, and issued a report of administrative inquiry to the President of the United States, the Office of Government Ethics, and our Congressional oversight committees, pursuant to our responsibilities under the Inspector General Act of 1978, as amended (IG Act).

While this inquiry was open, FHFA-OIG was unable to release this report. FHFA-OIG has been advised that it is at liberty to release its report. Accordingly, we are publishing this report on our website, consistent with our obligations under the IG Act, 5 U.S.C. App., the Freedom of Information Act, 5 U.S.C. § 552, and the Privacy Act of 1974, 5 U.S.C. § 552a.
Executive Summary

This is the second administrative inquiry conducted by the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) into allegations in anonymous hotline complaints claiming that an executive position had been created inappropriately and unnecessarily in the Office of the Chief Operating Officer (OCOO) of FHFA and that the Manager of the Project Management Office (PMO Manager) had been pre-selected for this position.

We first received anonymous hotline complaints in the summer of 2017 alleging that: (1) inappropriately created an executive position in the Office of the Chief Operating Officer (OCOO) for an FHFA employee, the PMO Manager; (2) advised two senior FHFA employees “not to bother applying for the job”; and (3) the creation of a new executive position was inconsistent with FHFA’s prior buyout. At the conclusion of our fact finding for that first administrative inquiry, in late March 2018, we formally referred the matter to the Office of Special Counsel (OSC) and provided the OSC with a summary of the facts found during that inquiry. On May 3, 2018, the OSC provided us with its preliminary determination that the record as it then existed did not support the allegations that the new executive position had been created improperly or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection for it. On May 7, 2018, we provided OSC’s written preliminary determination to FHFA and informed the Agency that we had completed our administrative inquiry and planned to close it.

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA’s Office of Equal Employment Opportunity (EEO) alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of 1964 (as amended). Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims. FHFA contracted with the United States Postal Service (USPS) to gather facts and information regarding the PMO Manager’s sexual harassment claim. This fact gathering began on June 14, 2018.

On July 3, 2018, while fact gathering was ongoing, the PMO Manager used her FHFA computer and email address to forward to her counsel an email exchange she had with the contract investigator regarding her disparate treatment EEO claims. She also blind-copied this message to over 100 FHFA managers. The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not. Several minutes later,
the PMO Manager re-forwarded that email message to her counsel and, once again, the FHFA managers. Attached to that re-forwarded message was an audio file containing a recording of a conversation between the PMO Manager and the FHFA Director, as well as three purported transcripts of other conversations between the PMO Manager and the FHFA Director which were prepared by the PMO Manager. Shortly thereafter, the PMO Manager sent a third email to the more than 100 FHFA managers that read “Sorry – this was sent in error – please disregard [sic].” The body of that email contained the same string of communications as the first two messages.

We were unaware of the PMO Manager’s sexual harassment claim against the Director during our first inquiry. We learned of it in July 2018, after we received three additional hotline complaints citing to the email messages and attachments sent by the PMO Manager. These three anonymous complaints alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager,

We opened a new administrative inquiry into these complaints, and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). Our second inquiry, which began in July 2018, focused solely on possible misconduct by the FHFA Director, and this report sets forth our findings from that inquiry.

We requested and received information from FHFA and the PMO manager. We also served subpoenas on the FHFA Director and the PMO Manager; and we interviewed 20 witnesses, including the FHFA Director. Initially, counsel for the PMO Manager cooperated in our inquiry, and provided us with 6 audio recordings of conversations between the Director and the PMO Manager and a total of 8 transcripts of conversations between them, some of which were prepared by the PMO Manager. Thereafter, the PMO Manager declined to cooperate further. She refused to be interviewed by OIG, and she did not comply with FHFA’s request to return her government-issued cellphone. She also did not comply an FHFA-OIG administrative subpoena for audio recordings she made of conversations with the FHFA Director and other materials, even after an Order from a United States District Court required her do so.

The PMO Manager stated under oath in the USPS fact gathering process that she recorded every conversation she had with the FHFA Director from 2016 through 2018, and that twice a week she attended regularly scheduled senior staff meetings, which the Director also attended. Therefore, her statement
leads us to believe that she may have additional recordings of conversations between her and the FHFA Director, which, despite our best efforts, we have been unable to secure.

The Inspector General Act of 1978, as amended, (IG Act) requires Inspectors General to timely report substantiated allegations of misconduct by senior agency officials. We have determined that the information we obtained during our administrative inquiry provides a sufficient basis to substantiate one allegation of misconduct by the FHFA Director and to give rise to a second finding of misconduct. Our two findings are:

The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

Section 702 of the Standards of Ethical Conduct for Employees of the Executive Branch (the Standards), 5 CFR § 2635.702, prohibits an officer or employee from using any authority associated with his federal office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise. The FHFA Director is bound by the Standards. We found that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in a personal relationship with him by suggesting or implying he would use his official authority to assist her in attaining an executive position with FHFA.

The FHFA Director advised the PMO Manager, and reported to us, that only he could approve the creation of a new executive position and the selection of a candidate to fill it. By his own design, he met alone in his apartment with the PMO Manager, a subordinate who the Director knew desired a promotion to an executive position in the Agency, and raised two possible opportunities for such a promotion. In a recording of a portion of their conversation in the FHFA Director’s apartment, the FHFA Director can be heard to intermingle comments about his attraction to the PMO Manager and his admiration of her physical appearance with a discussion of possible paths by which she could advance into FHFA’s executive ranks.

We find that there are no circumstances under which it would be appropriate for the head of FHFA to induce a subordinate employee to meet with him alone, in his apartment, for a conversation in which he professes his attraction for that employee and holds out opportunities for the employee to serve in specific executive positions over which he exercises total control.
The FHFA Director Was Not Candid

Every agency employee providing information in an OIG inquiry, including the head of an agency, must be fully forthcoming and candid as to all facts and information relevant to the inquiry, even if that employee is not specifically asked about particular facts or information. Thus, an employee must disclose those things that, in the circumstances, are needed to make the employee’s statement complete and accurate.

At the start of our interview with the FHFA Director on February 15, 2018, in connection with the initial administrative inquiry regarding these matters, we advised the Director that his interview was part of an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the Director lacked candor when he omitted information that was material to our inquiry. Specifically, he omitted: (1) any mention of his personal friendship with, and mentorship of, the PMO Manager; and (2) that he had a “plan,” dating back to at least June 2016, under which the PMO Manager could advance into FHFA’s executive ranks.

We provided a draft of this report to the FHFA Director; his November 26, 2018, written response (Response) is attached as the Appendix. The Director’s Response is notable for what it does not contain. Nowhere does the FHFA Director deny that: (1) he invited a subordinate to meet with him alone, in his apartment; (2) during that meeting, he professed his physical attraction for that employee and held out opportunities for that employee to be promoted into specific executive positions; and (3) he knew this subordinate employee sought these executive positions over which he exercised total control.

Nor does the Director offer any evidence or assertions that contradict our findings. Rather, he claims that this report is incomplete because we lack the balance of the recordings made by the PMO Manager of her conversations with the Director. The Director states that the missing recordings would show that the PMO Manager, and not the Director, initiated most of the conversations. The Director, however, does not explain why that information would be exculpatory to a claim of misuse of government position for personal gain.

Lacking any exculpatory facts, the Director criticizes the inquiry that brought his misconduct to light. In particular, the Director alleges that: the report represents a “rush to judgment” so we could vindicate our independence and integrity; we improperly investigated a matter under Title VII and compromised FHFA’s EEO process; our administrative inquiry was flawed; and we misled a federal court in our subpoena application. For the reasons set
forth in this report, we flatly reject each of the process issues raised by the FHFA Director.

We follow the facts wherever they lead and we report the good and the bad. When our fact-finding identifies deficiencies in FHFA’s programs and operations, shortcomings in FHFA’s implementation of policies and guidance, inadequate internal controls, or wrongdoing by FHFA employees or senior executives of entities under FHFA’s conservatorship, we report the evidence that demonstrates the deficiencies, shortcomings, or wrongdoing in accordance with professional standards. This inquiry and report were conducted in conformance with the Counsel of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Investigations (2011) and the CIGIE Quality Standards for Federal Offices of Inspector General (2012). We stand by the integrity of our administrative inquiry and by our two findings.

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the Office of Government Ethics and to our Congressional oversight committees. We are referring to the OSC the allegations about (b)(6);(b)(7)(C) for its review and determination and are providing to OSC the evidentiary record we compiled in this second inquiry, given that the OSC has the statutory authority to determine whether FHFA senior executives engaged in any (b)(6);(b)(7)(C).

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BACKGROUND

In the summer of 2017, the FHFA Office of Inspector General (OIG) received two anonymous hotline complaints which included allegations that: (1) inappropriately created an executive position within OCOO for an FHFA employee, the PMO Manager; (2) advised two senior FHFA employees “not to bother applying for the job;” and (3) the creation of a new executive position was inconsistent with FHFA’s prior buyouts.

We forwarded the anonymous complaints to an FHFA Deputy General Counsel (DGC) and requested a response within 30 days. On September 15, 2017, that DGC reported to us that did not create a new executive position for the PMO Manager. According to that DGC, recommended to the FHFA Director that a new position be created to oversee the management of the Office of Quality Assurance (OQA) and the Project Management Office (PMO). The OQA was located in the OCOO and the PMO was being relocated from the Division of Conservatorship (DOC) to the OCOO. The FHFA Director approved recommendation, in writing, on July 14, 2017. The DGC advised us that FHFA had not advertised the opening for that new position, and that he intended to ask to reconsider.

1 Her official position was Supervisory Management & Program Analyst. Within FHFA’s Division of Conservatorship and at the time was considering whether to create a new executive position within OCOO, her title was Senior Advisor and PMO Manager.

2 At page 2 of his Response, the FHFA Director claims that “the FHFA-OIG was intimately involved in delaying [the PMO Manager’s] being able to compete for a position of advancement within FHFA and in the delays that ultimately led her to file an EEO complaint against FHFA,” and OIG “made it impossible for FHFA to advance [the PMO Manager] within FHFA from the summer of 2017 until May of 2018, because [OIG] dragged its feet on an investigation that could and should have been completed long before it was.”

As explained above, it was not possible for the PMO Manager to apply for this executive position in the summer of 2017, because the position had not yet been announced. Moreover, OIG promptly forwarded the first two hotline complaints it received in the summer of 2017 to a DGC and requested a response within 30 days. The DGC reported that the FHFA Director had approved the creation of a new executive position, but the new vacancy had not been announced and that he intended to ask to reconsider filling that position. Until a position description had been drafted and the vacancy announcement posted, there was no claim to investigate.

Contrary to the assertion of the FHFA Director, FHFA could not “advance” her into an executive position until she competed and was selected for such a position because she was not an executive, and the newly created executive vacancy was first announced on November 20, 2017. OIG commenced its first administrative inquiry in January 2018, and completed its fact-finding in less than three months. By any measure, a three-month inquiry, in which more than 12 witnesses were interviewed and numerous FHFA documents were obtained and reviewed, is not “foot dragging.”

3 The DGC further reported that denied “discourag[ing] FHFA employees from applying” for the position, and he credited that denial.

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filling that position. He subsequently reported that intended to advertise the position and fill it.

On November 20, 2017, FHFA posted a job announcement for the new executive position, which was open only to FHFA employees and only for two weeks. On November 27, 2017, the DGC agreed to notify us before FHFA offered the new executive position to anyone.

**OIG’s First Administrative Inquiry**

We received three additional anonymous hotline complaints concerning the new executive position, after it was posted.

From January to March 2018, we conducted an administrative inquiry into the five hotline complaints, all of which were directed at the Agency and None of the allegations suggested an improper relationship between the PMO Manager and the Director. In the course of our inquiry, we reviewed relevant Agency documents and interviewed 12 witnesses, including the FHFA Director and the PMO Manager. In January 2018, we requested that FHFA place a “legal hold” on the position, pending the outcome of our inquiry into the allegations in the hotline complaints, to which FHFA agreed.5

**Interview of the FHFA Director**

The FHFA Director was interviewed on February 15, 2018. He reported that, several years ago, he determined to retain sole authority to approve the creation of all executive positions within FHFA because he wanted to have the appropriate number of executives in the agency. He further explained that, pursuant to a directive issued by President Trump, each agency had to consider whether any vacant executive position could be eliminated and must justify the creation of any

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4 This inquiry was conducted by career law enforcement personnel and career investigative counsel.

5 In January 2018, a panel concluded interviews of the candidates for the new executive position and determined that the PMO Manager was the most qualified candidate.

At page 2 of his Response, the FHFA Director contends that FHFA-OIG breached the confidentiality of the PMO Manager when it communicated to him that the panel had unanimously selected the PMO Manager for the new position. His assertion is incorrect.

The fact that the panel had unanimously selected the PMO Manager was not tightly-held. In late January 2018, the DGC informed FHFA-OIG that the panel had selected the PMO Manager. However, he did not advise that this selection was to be held in confidence. Indeed, the Chief of Staff to the FHFA Director, who was not a member of the panel, learned about the selection when she inquired about the result of the interview process for the position. She stated, in her signed declaration to the USPS contract investigator, that she assumed the PMO Manager’s selection was rolled into the transfer of the PMO to the OCOO (which occurred in January 2018), and congratulated the PMO Manager on her selection. In sum, the PMO Manager had no privacy right that was violated when we reported the panel’s selection recommendation to the FHFA Director.
new executive position. According to the Director, he had to be satisfied that any new executive
would increase the Agency's efficiency. He stated that a number of FHFA employees,
including the PMO Manager, expressed frustration that promotions to executive positions were
available only through attrition because FHFA was “top-heavy.”

The FHFA Director explained that beginning in 2016, there was a consensus among FHFA
senior executives to transfer the PMO from DOC to OCOO, and that this transfer was a priority
for 2017. However, he maintained that the allegation that摇了摇头 lobbyist to create a new
executive to manage the PMO for a specific employee was untrue. He denied both that he
approved the creation of the new executive position in OCOO expressly for the PMO Manager
and that the PMO Manager lobbied him directly to create an executive position for her.

The FHFA Director explained that he also retained sole authority to select a candidate to fill an
executive vacancy. He stated that he usually followed recommendations made by his
subordinates in selecting individuals to fill executive positions. He told us that he was unaware
of the employees who applied for the new executive position and did not know the
recommendation from the panel.

The FHFA Director acknowledged that, during his tenure, he spoke to a number of FHFA
employees about the PMO Manager’s abilities, but not specifically about whether she should be
made an executive. According to the Director, FHFA has a number of talented employees,
including the PMO Manager. In his view, the PMO Manager had great experience handling
FHFA’s relationship with Fannie Mae and Freddie Mac and standing up DOC. He noted that the
PMO Manager was a trusted lieutenant to the former Deputy Director of DOC, prior to her
retirement, and that this former Deputy Director had spoken highly about the PMO Manager.

During this interview, the FHFA Director made no mention that he had previously discussed
possible executive opportunities with the PMO Manager in private conversations and had a
mentoring relationship with her.

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6 In effect at the time that the FHFA Director approved recommendation to create a new
executive position was FHFA’s Order No. 4, “Delegation of Authority to Approve Personnel Actions,
Determinations, and Requests,” which was issued by the previous FHFA Director on January 5, 2009. Under
that order, the FHFA Director retained the authority to approve requests for executive positions. The current
FHFA Director explicitly retained that authority when he replaced Order No. 4 with Order No. 4, Amendment
No. 4 on September 15, 2017. In addition, on February 10, 2017, the FHFA Director sent a memorandum to
all FHFA executive staff requiring them to “make a compelling case” for any new position and the need to fill
it in response to the “Presidential Memorandum Regarding the Hiring Freeze,” issued by the President on

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Interview of the PMO Manager

The PMO Manager was interviewed on March 16, 2018. She explained that senior FHFA executives recommended and implemented the reorganization that moved the PMO to OCOO. The PMO Manager reported that she never heard that [redacted] had discouraged employees from applying for the new executive position or that he favored any applicant. She denied that [redacted] told her that he had a preferred candidate for the position; she had been told in advance of the selection process that she would be selected for the new executive position; or she was the preferred candidate for it.7

7 Three days after this interview, on March 19, 2018, the PMO Manager filed a whistleblower complaint with FHFA-OIG and asked for anonymity. Her complaint made two allegations. First, she alleged that FHFA officials misused the OIG hotline and filed false claims in order to perpetuate discrimination in the FHFA workforce. Second, she alleged her rights under Title VII of the Civil Rights Act of 1964 (as amended) were violated when she was discriminated against on the basis of sex and race. She did not make any allegations against the FHFA Director.

At page 2 of his Response, the FHFA Director claims that OIG created an actual or apparent conflict of interest that precluded it from investigating his misconduct when OTO alerted him to the fact that the Agency’s EEO office declined to accept for filing the PMO Manager’s EEO claim. The Director’s claim is erroneous, both as a matter of fact and law.

By letter dated March 27, 2018, the then-Deputy Inspector General for the Office of Investigation in FHFA-OIG recommended, in writing, to then-counsel for the PMO Manager that the PMO Manager bring her Title VII claims to the attention of FHFA’s EEO office. A senior investigative counsel in FHFA-OIG underscored that recommendation in an email April 18, 2018, “we believe that the FHFA EEO Office should promptly and fully investigate [the EEO] matter in the first instance.”

By early April 2018, the PMO Manager had disclosed both her identity and her Title VII claims to FHFA officials. An April 4, 2018, letter from then-counsel to the PMO manager reported that FHFA’s EEO office had advised the PMO Manager that she could not pursue EEO counseling unless she could identify the individuals who discriminated against her. FHFA documents show that the PMO Manager raised her Title VII claims to [redacted], a senior FHFA official, orally and in writing: [redacted] drafted a response, which was vetted by lawyers in FHFA’s Office of Counsel, and that response was sent to the PMO Manager: [redacted] forwarded the PMO Manager’s claims to FHFA’s Office of Minority and Women Inclusion (OMWI) and to FHFA’s EEO office, located within OMWI; and OMWI official then provided the PMO Manager with an EEO intake form and spoke with her about filing an informal EEO complaint.

FHFA-OIG had a reasonable, good faith belief that the PMO Manager had voluntarily revealed both her identity and the same Title VII claims raised in her hotline complaint to senior officials in FHFA in April 2018. Pursuant to Section 4(a)(5) of the IG Act of 1978, as amended, FHFA-OIG has both the duty and responsibility to bring to the FHFA Director’s attention the fact that the Agency’s EEO function had turned away the PMO Manager’s Title VII claims. The Inspector General fulfilled that responsibility when she provided this information to the FHFA Director on April 25, 2018.

The Inspector General has publicly explained the reasons for her disclosures to the House Financial Services Committee on September 27, 2018:

We got a letter from her then-counsel on April 4, saying the EEO office, FHFA had rejected her claim. I was quite concerned about that because these are EEO issues, they facially sounded quite intensely serious to me. EEO has a pretty short timeline. I felt that appropriate for the EEO office to deal with it. [The PMO Manager] had already identified herself and her complaint to the EEO office.

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Congress established the OSC as an independent federal investigative agency, the primary mission of which is “to protect[] federal employees and applicants from prohibited personnel practices.” Therefore, we concluded the OSC was the appropriate entity to determine whether a prohibited personnel practice, had occurred regarding the creation of or selection for the new executive position.

We spoke with OSC officials during the inquiry to alert them that we intended to refer the matter to the OSC at the conclusion of our fact finding and formally referred the matter to OSC on March 22, 2018. The OSC accepted our referral, and on April 2, 2018, we provided the OSC with a summary of the facts found during our administrative inquiry, including documents provided by FHFA. On April 5, 2018, we met with OSC attorneys. The fact finding for our administrative inquiry was complete at that time.

By letter dated May 3, 2018, the OSC reported to us that it had reached a preliminary determination that the record as it then existed did not support the allegations that the new executive position was improperly created, or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection by the panel.

On May 7, 2018, we provided OSC’s written preliminary determination to FHFA and informed it that we had completed our administrative inquiry and planned to close the inquiry.

FHFA advised us that, as of November 28, 2018, the position remained vacant.

FHFA’s Investigation of the PMO Manager’s EEO Complaint

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA’s EEO office, alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of

What I said to [the FHFA] Director [ ] was very simple. We’ve gotten a complaint, that complaint is from [the PMO Manager] who previously made it to the EEO office which rejected it and — and frankly, sir, you need to do your job and tell the EEO office [to process the complaint]. It wasn’t until July that anyone in my office became aware of any claims of sexual harassment, which had nothing to do with our prior work.

Even assuming that the PMO Manager had some anonymity to protect, which she did not, Section 7(b) of the Inspector General Act, as amended, required the Inspector General to disclose the identity of the PMO Manager to the FHFA Director without her consent because she determined that such disclosure would be “unavoidable during the course of the investigation.” In sum, compliance with the IG Act does not create an actual or apparent conflict of interest, notwithstanding the Director’s assertion.

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1964 (as amended). Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims.

As part of her harassment claim the PMO Manager alleged that:

FHFA contracted with the USPS to gather facts and other information related to the PMO Manager’s Title VII sexual harassment claim. The fact gathering, which began on June 14, 2018, included obtaining sworn statements, portions of audio recordings the PMO Manager chose to produce, and unofficial “transcripts” prepared by the PMO Manager.\(^8\)

On July 3, 2018, while the fact gathering process was underway, the PMO Manager used her FHFA computer and email address to forward to her personal counsel an email exchange she had with the USPS contract investigator.\(^9\) She also blind-copied over 100 FHFA managers.\(^10\) The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not.

Several minutes later, the PMO Manager re-sent that email message to her counsel and, once again, blind-copied the same group of FHFA managers. Attached to that message was a file named “Watt Employment Charade Process” containing an audio recording of a portion of a conversation between the PMO Manager and the FHFA Director. Also attached were three purported transcripts of recorded conversations between the PMO Manager and the FHFA

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\(^8\) The report by the USPS contract investigator did not contain findings of fact and conclusions of law, and did not address the allegations of misconduct by the FHFA Director that are the subject of this report.

\(^9\) Any FHFA employee who seeks to access FHFA servers, whether through a government-provided computer, laptop, or personal computer, must first agree to terms and conditions in which the employee acknowledges no expectation of privacy.

\(^10\) The PMO Manager blind copied her first two messages to an FHFA email list, called “2018 Managers Conference,” which included more than 100 FHFA managers.

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Director which the PMO Manager labeled, “Four Types Attraction,” “Tattoo,” and “Why Have You Rejected My Advances.”  

Shortly thereafter, the PMO Manager sent a third message to the same group of FHFA managers that read, “Sorry – this was sent in error – please disregard [sic].” The three purported transcripts and the recorded conversation were, once again, appended to the message.

OIG’s Second Administrative Inquiry

We first learned of the PMO Manager’s sexual harassment claim against the Director in July 2018, when we received three additional hotline complaints citing to the email messages and attachments sent by the PMO Manager. These complaints alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager.  

We opened a new administrative inquiry into these complaints and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). This inquiry focused solely on possible misconduct by the FHFA Director and was expressly authorized by the IG Act, as amended, which vests us with authority to investigate possible waste, fraud, and abuse in the operations and programs of FHFA and by FHFA officials. Contrary to the Director’s assertion, this inquiry proceeded separately from the Agency’s investigation into the PMO.

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11 These were not actually transcripts, although they have the outward trappings of transcripts. Each of these three purported transcripts appeared to be produced by a certified transcription company because: each contained introductory pages labeled, “Transcript of Recorded Conversation;” each had a job number and the name of a court reporter who worked for the transcription company and provided the transcription; and each included a signed certification by the named court reporter, under penalty of perjury, that the transcript was a “full, true and correct transcription” of the recording.

We learned subsequently, from the USPS contract investigator’s report, that these three purported transcripts were created by the PMO Manager in 2018 from her recollections of 2016 conversations, using a “template” of a transcript from the transcription company. As we explain later in this report, the PMO Manager declined to provide either to the USPS contract investigator or to us the recordings of these conversations that these “transcripts” purported to document. Therefore, we treated each of these purported transcripts as the PMO Manager’s 2018 recollections of conversations that took place during 2016.

12 The field work for this inquiry was conducted by career government attorneys who serve as senior executives in OIG.

13 As we advised counsel for the PMO Manager in March and April 2018, and the FHFA Director, jurisdiction for the Title VII claim raised by the PMO Manager rests initially with FHFA and then with the Equal Employment Opportunity Commission.
Manager’s EEO claims and did not compromise or supplant that investigation. We conducted this inquiry in conformance with the *Quality Standards for Investigations* promulgated by CIGIE, and with CIGIE *Quality Standards for Federal Offices of Inspector General*.

As we did before, we are referring to the OSC the allegations regarding improper creation of a new executive position, and pre-selection of the PMO Manager. We are also providing to OSC the evidentiary record we compiled in this second inquiry, given that the OSC has the statutory authority to determine whether FHFA senior executives engaged in any

**OIG’s Efforts to Obtain Audio Recordings, Transcripts, and Other Documents**

FHFA provided us with the July 3, 2018, emails and attachments sent by the PMO Manager to her counsel and the FHFA managers. Thereafter, we sent requests for information to FHFA, and to the FHFA Director and the PMO Manager, through their respective counsel. FHFA provided responsive documents. The PMO Manager’s counsel sent us six recordings made by her client of conversations with the FHFA Director:

- one recording of a conversation that occurred purportedly on June 17, 2016;
- three recordings of portions of a conversation on November 11, 2016;
- a duplicate of one of the November 11, 2016, recordings; and
- one recording of a phone conversation that occurred on May 10, 2018.

After listening to those recordings, which appeared to stop and start during the conversations being recorded, we concluded that none was a complete record.

The PMO Manager’s counsel also produced:

- transcripts of the June 17, 2016, and the three November 11, 2016, recordings, identified above;
- a transcript of a conversation with the FHFA Director that occurred purportedly on March 13, 2018 (but no recording for that conversation); and

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14 In the draft report we provided to the FHFA Director for his response, we referred to an Appendix A, which set forth a summary of the facts concerning the creation of the new executive position within OCOO. Because related to the creation of the executive position within OCOO is ongoing, we have not included Appendix A as part of this final report. Once OSC completes its review, we will report OSC’s determination in our Semi-Annual Report as required under Sections 5(a)(19) and 5(a)(22)(B) of the IG Act.

15 The transcript of the conversation is dated June 17, 2016. However, the FHFA Director testified that the dinner meeting occurred on June 8, 2016, which was confirmed by the charge on his credit card statement. For purposes of this report, we refer to the recording of that meeting, and transcript, as June 17, 2016.

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• three unofficial “transcripts” prepared by the PMO Manager of other conversations with the FHFA Director that occurred purportedly in 2016, which were substantially similar to the purported transcripts sent by the PMO Manager on July 3, 2018 (but no recordings for those conversations).

We also received from the USPS contract investigator, through FHFA, a recording of a phone conversation that occurred on May 8, 2018, between the PMO Manager and the FHFA Director.

To ensure that all materials, including recordings, relevant to our administrative inquiry were produced by the FHFA Director and the PMO Manager, we issued separate administrative subpoenas to them on July 18, 2018. Counsel for the FHFA Director and for the PMO Manager accepted service of the subpoenas.

On July 27, 2018, the FHFA Director produced responsive materials. Counsel for the PMO Manager assured us that the PMO Manager would cooperate, and expressly authorized us to travel to the PMO Manager’s residence to retrieve from her copies of her audio recordings of conversations with the FHFA Director. That counsel asked for technological assistance to transfer all audio recordings to an encrypted flash drive and explained that such technological assistance was “the only impediment to the production” of the recordings. We agreed to provide that assistance.

From July 24, 2018, to the issuance of this report, the PMO Manager did not cooperate in our inquiry, although we advised her, both orally and in writing, that our inquiry focused solely on allegations of misconduct by the FHFA Director, for which she was only a witness. We asked FHFA to provide to us the government cell phone issued to the PMO Manager because the PMO Manager said she used it to record conversations with the FHFA Director. The Agency asked the PMO Manager to return that phone. The USPS contract investigator’s report stated that the PMO Manager recounted that she had taken the government cell phone issued to her to a third party “data recovery provider who was able to recover data from [her] work phone.” However, the PMO Manager declined to return this FHFA-issued government cell phone to FHFA.

After the PMO Manager refused to comply with our administrative subpoena, we sought the assistance of the Office of the US Attorney for the Eastern District of Virginia to file a petition with the Court to enforce the subpoena. At that time, our second administrative inquiry was

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16 Neither the PMO Manager nor her counsel provided to us any recordings of conversations between January 1, 2016, and June 7, 2016; between June 9, 2016, and November 10, 2016; and between November 12, 2016, and May 9, 2018.

17 Upon the receipt of the subpoenas, neither counsel questioned the independence of this administrative inquiry, challenged the subpoena as issued for an improper purpose (such as harassment, intimidation, or retaliation), or claimed that we lacked authority to issue it.

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approximately one month old, and we believed that the information sought from the PMO was essential to our ability to conduct the inquiry.

The PMO Manager stated in her signed declaration to the USPS contract investigator, dated August 8, 2018, that “there were two regular weekly [senior staff] meetings that [she] attended with the Director...” and that she “recorded all conversations with [the FHFA Director] from 2016 to present.” Her statement led us to believe that she may have additional recordings of her conversations with the FHFA Director. To the best of our knowledge, the PMO Manager was, and remains, the sole source for these additional recordings. Despite our best efforts, we have been unable to secure those recordings.

At pages 3, 4, and 6 of his Response, the FHFA Director seizes on representations in our moving papers to claim that we have demonstrated “an apparent willingness to have the Justice Department deceive the United States District Court” because we reached two findings without obtaining the recordings sought in the subpoena.

Once again, the Director’s claim has no factual basis. On October 5, 2018, after a full round of briefings and a hearing, the judge ordered the PMO Manager to produce all materials sought by the subpoena. On October 15, 2018, the PMO Manager appealed to the United States Court of Appeals for the Fourth Circuit. While we recognized that this litigation could lead us to obtain the materials in the possession of the PMO Manager, we were mindful that such litigation could take many months to resolve. Moreover, the IG Act requires us to timely report substantiated allegations of misconduct by senior agency officials. We determined, after close review of the information obtained during our second administrative inquiry, that the information we had acquired to date was sufficient to substantiate misconduct by the FHFA Director. It is the statutory mandate that creates the exigency of time, and not, as the Director suggests the expiration of his term on January 6, 2018.

We conveyed this analysis to the Office of the US Attorney for the Eastern District of Virginia and an agreement was reached with counsel for the PMO Manager to dismiss her appeal. Together, the parties sought to dismiss the subpoena enforcement action, which was approved by the Court on November 1, 2018. In dismissing this action, the Court raised no concerns about the legitimate basis either for the petition or the dismissal.

**Review of Audio Recordings**

Audio recordings provide contemporaneous evidence of statements made by the FHFA Director to the PMO Manager. As we have explained, we obtained, from counsel for the PMO Manager and from the USPS contract investigator (through FHFA), recordings made by the PMO Manager of portions of four conversations with the FHFA Director, two of which
occurred after the executive position was created and the PMO Manager was selected by the panel to fill it. We caused transcripts to be made for each of these recordings.\textsuperscript{18} Two of these recordings, from conversations between the PMO Manager and the Director in June and November 2016, are relevant to this inquiry.

\textit{The June 17, 2016, Recording:}

The FHFA Director confirmed that he and the PMO Manager met for dinner at the Rosa Mexicano restaurant in June 2016 and that this dinner was one of two meals that they shared off-site and alone. The portion of the recording produced to us begins in the middle of a conversation that purportedly occurred in June 2016 in a restaurant, with the PMO Manager asking the FHFA Director when the position, which is an executive position, would become vacant. The FHFA Director responded, “I don’t know what the timing is. [The position] wouldn’t be surprised if it was sooner rather than later.” At a subsequent point in the recording, the Director suggested that the Chief of Staff position, an executive position, would become vacant after his current Chief of Staff moved to a different position.

The Director asked the PMO Manager: “What do you want, not just limited to the things I’ve laid out, what do you want to do?” She responded: “I think I’ve definitely been looking for kind of, you know, an expansion in role. The chief of staff is ideal, but that’d be up to you, I guess.” The FHFA Director explained that his term was limited to five years, which would be “a downside to having the chief of staff position” because “it doesn’t necessarily carry over” and is “a discretionary position.” The PMO Manager replied, “I don’t think I’m going to stay at FHFA for the rest of my life” and “I think I could find other places.” The FHFA Director concurred: “And being chief of staff to me would position you for a lot of places.”

\textit{The November 11, 2016, Recording:}

The FHFA Director confirmed that it is his voice on this recording of a conversation with the PMO Manager and that this conversation took place in his apartment in November 2016. Text messages between the FHFA Director and the PMO Manager sent and received from his

\textsuperscript{18} The PMO Manager declined to produce recordings for three conversations she had with the FHFA Director during 2016 for which she created three unofficial “transcripts,” one version of which was attached to her July 3, 2018, email. The report of the USPS contract investigator recounted what the PMO Manager told the investigator: the PMO Manager used a template from a transcription service company to create unofficial “transcripts” of her recollections of these three 2016 conversations; at her request, a third party data recovery service provider recovered data from a government cell phone issued to her; after the third-party data recovery provider recovered data from that government issued cell phone, the PMO Manager listened to recordings that she thought had been erased; she compared the recordings to her unofficial “transcripts” created from her memory; she found that the recordings were “consistent with minor deviations”; she “modified” her unofficial “transcripts” to “match the recordings”; she provided those modified unofficial “transcripts” to the contract investigator; and she did not make the recordings available to that investigator.

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private cell phone during the period November 4-11, 2016, show that the Director first invited the PMO Manager to his apartment over the weekend of November 12-13, 2016, and that she agreed to meet with him on November 11, a federal holiday.19

At pages 10-11 of his Response, the Director maintains that we have “chosen to ignore” a text message in order to reach the “disingenuous” conclusion that he induced the PMO Manager to come to his apartment. After the FHFA Director and PMO Manager, agreed by text, to meet on Friday, November 11, 2016 (which are set forth in footnote 19), the PMO Manager proposed in a text that the two meet, “at 1,” to which the Director responded, “You can let me know where,” and the PMO Manager replied, “What works for you?” In other words, the PMO Manager left it to the FHFA Director to select a meeting place – and he selected his apartment. The partial recording of the November 11, 2016 conversation between the PMO Manager and the Director underscores that the meeting place was chosen by the Director. In that recording, the Director stated, “I think you finally came – you finally came to the conclusion that I did, that this is the safest place to do this, to have this conversation. It would be the safest place to – if it were going beyond this conversation. But I think you were concerned that I was luring you here for other reasons.”

This recording begins in the middle of a conversation in which the FHFA Director appears to have raised the opportunity for the PMO Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. The FHFA Director characterized the former as “our original plan” which was “to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” The Director then explained to the PMO Manager that this option “wouldn’t have been a good idea anyway. Because the chief of staff is a position that basically whether you are career or whether you are schedule C, it’s generally going to change when the new director comes in.” He explained further that, in the event his successor chose a different chief of staff, she could “bump back” to her current position or to another position in the Agency equivalent to the one she left.

The FHFA Director continued that he was “not sure” that [b)(6)][b)(7)[C]In the event[b)(6)][b)(7)[C] decided to return to his position[b)(6)][b)(7)[C] he could

19 In these texts, the FHFA Director sought to have the PMO Manager visit him for a longer period of time than she was willing. The PMO Manager texted, “I have a few hours tomorrow [b]between 1 and 3,” to which the Director responds, “Do [you] have more, less or no time on Sat or Sun instead? How do you calculate that the time between 1 & 3 is a ‘few’ hours?” The PMO Manager replies, “Lol It’s a lot for me.” The Director then texted, “Sat or Sun or is my option only the ‘few’ hours between 1 & 3 tomorrow?” The PMO Manager replied, “Yes Friday.” On her way to his apartment on November 11, 2016, the PMO Manager texted, “About 30 mins out,” and the Director responds, “The ‘few’ gets shorter.”
“take his position back” which was the reason that FHFA could not fill that position, even though the Director acknowledged that the PMO Manager was “doing a lot of the responsibilities that go with” that position.

The PMO Manager expressed her appreciation to the FHFA Director for “putting some thought into it and sharing that with me,” and stated that “I think I would be qualified for either position...” She then said, “I just need to make sure that I feel clear and confident that this is just going to be based on merit and fitness for the position, and that there’s nothing else.”

The FHFA Director replied that he “intended to address that first.” He then told the PMO Manager he thought she was “gorgeous” but he did not “make agency decisions based on who’s gorgeous and who’s not.” He maintained that he had “gone out of [his] way to get this – get our friendship... – or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it.” He reported to the PMO Manager that “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That is true.”

The Director acknowledged that he had “tried to accept what you told me, the first time you told me. And that’s fine. I accept it. I know I can draw the line.” After repeating four times that he could “draw the line,” the FHFA Director added, “[m]uch to my disappointment...”

The FHFA Director then asked the PMO Manager, “How are you feeling? What are you feeling?” and she responded, “I think I’ve definitely had concerns with – well definitely with coming here.” Even though he professed to know where to draw the line, he again remarked that his apartment was the “safest place to do this, to have this conversation” and that “[i]t would be the safest place to – if it were going beyond this conversation.”

**Interviews and Sworn Testimony**

Between July 9, 2018, and October 18, 2018, we interviewed 20 witnesses – some on multiple occasions. Counsel for the PMO Manager did not respond to two written requests by us for an interview with the PMO Manager. A summary of two of these interviews follows.

**Interview of the FHFA Director**

On October 11, 2018, we interviewed the FHFA Director under oath, using a court reporter to transcribe the interview.\(^{20}\) He confirmed that he met the PMO Manager alone in his

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\(^{20}\) The FHFA Director was represented by counsel at this interview.

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apartment in November 2016, and that it is his voice on the recording of a portion of his conversation with the PMO Manager, provided to us by the PMO Manager’s counsel.

He testified that he is the only executive in FHFA authorized to approve the creation of a new executive position, and that FHFA remains “top-heavy” with executives, despite his approval of an executive buy-out which the Agency conducted in 2014.²¹ The FHFA Director stated that he recognized that circumstances might require him to approve a request to create a new executive position. However, he would do so only if such a request was supported by a “compelling case” based upon “substantial documentation and support.” The Director established this standard in a February 10, 2017, memorandum he sent to FHFA executives following the issuance of the “Presidential Memorandum Regarding the Hiring Freeze” by the White House on January 23, 2017.

The FHFA Director also testified that he has been the PMO Manager’s friend and mentor since at least 2016,²² and that he met her alone outside of the FHFA workplace on four occasions in 2016: at a restaurant; at a night club; in Rock Creek Park; and at his apartment in Washington, D.C.²³ Although he testified that he has mentored a great many individuals, he could not recall a female mentee other than the PMO Manager whom he invited to his private residence in DC.²⁴

The FHFA Director stated that the PMO Manager made it clear to him on multiple occasions that she wanted to be an executive in the agency. He added that “it was general knowledge that [the PMO Manager] was one of the people in the agency who had — who had good skills and should be considered if an executive level position ever got created.”

He testified that he assumed the PMO Manager would apply for the new executive position in OCOO when he approved the creation of it. He also confirmed that one of the options he considered for the PMO Manager was the “original plan” to bring her into the Chief of Staff’s office that “would’ve put [her] in line” to become chief of staff. He did not dispute that he discussed the chief of staff and COO positions with the PMO Manager, but thought he never

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²¹ In 2014, the Director approved a buyout of 12 FHFA executives at a cost of about $1.45 million.

²² The FHFA Director testified that he became the PMO Manager’s mentor when she started coming to him for advice after his first meeting with her to discuss the PMO in 2015.

²³ The FHFA Director also recalled meeting her at a restaurant in 2015.

²⁴ He recalled that a FHFA female IT technician came to his apartment “to set up [his] home computing capabilities with the office” but that he was not in “an ongoing mentoring relationship” with her. He stated that this technician had since retired. During his October 11, 2018, deposition, the Director confirmed that, other than the female IT technician and the PMO Manager, no other female mentees visited his apartment in Washington, D.C.
discussed with her the impediments to her if she competed for the COO position. He explained those impediments to us: if the PMO Manager, who was a grade below an executive, “was competing for the [COO’s] position, there would probably be multiple existing executives who would want that position... And so no way a level 15 probably was going to get that job....”

Interview of (b)(6); (b)(7)(C)

We interviewed (b)(6); (b)(7)(C) on October 10, 2018, under oath and before a court reporter who transcribed the interview. (b)(6); (b)(7)(C) testified that he was “transparent” with the PMO Manager and the OQA Manager, and discussed options by which to manage the PMO and OQA, including an option to create a new executive position and an option to place the PMO under an existing executive.

(b)(6); (b)(7)(C) recalled that the PMO Manager reacted negatively to his consideration of an option other than the creation of a new executive position and became upset. Further, she advised that she was “going to go talk to the Director about that.” (b)(6); (b)(7)(C) recalled that he warned the Director about this development and that the Director responded that the PMO Manager had already spoken with him and that he had told the PMO Manager that the decision was up to (b)(6); (b)(7)(C).

FINDINGS ...................................................................................................................

As discussed, we recognize the likelihood that the PMO Manager has additional recordings of her conversations with the FHFA Director which the PMO Manager has not produced in response to our information request, subpoena, and a Court Order. To the best of our knowledge, the PMO Manager was, and remains, the sole source for these additional recordings. However, based on our review of the identified recordings, documents, and information learned during our interviews, we have determined that we have a sufficient basis on which to reach two findings of misconduct by the FHFA Director.

25 (b)(6); (b)(7)(C) was represented by counsel at this interview.

26 When asked whether (b)(6); (b)(7)(C) reported the PMO Manager would complain to the FHFA Director if (b)(6); (b)(7)(C) did not recommend creation of a new position, the FHFA Director answered: “He definitely didn’t tell me that because I would have remembered that.” He did not recall whether the PMO Manager came to see him after she thought (b)(6); (b)(7)(C) might not recommend creation of such a position.
1. The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

The Standards establish a code of conduct applicable to all officials and employees of the federal executive agencies. At all times relevant to our inquiry, the FHFA Director was subject to the Standards.

Section 702 of the Standards prohibits an officer or employee from using any authority associated with his federal office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise.

For the reasons set forth below, we find that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in some sort of relationship with him that went beyond their existing “friendship” and/or mentorship by suggesting or implying he would use his official authority to assist her in attaining an executive position within FHFA.

The recording of the Director’s conversation with the PMO Manager on November 11, 2016, establishes that the Director, not the PMO Manager, went “out of [his] way to get this – get our friendship... – or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it.” The PMO Manager made clear in the recording that this off-site, on one meeting at his apartment made her uncomfortable: “I think I’ve definitely had concerns with – well, definitely with coming here.”

The Director explained his personal interest in the PMO Manager: “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That’s true.” He went on to say that he had “tried to accept what you told me, the first time you told me,” and was “comfortable with drawing the line where you told me I needed to draw it. So I’ve drawn that line [ ] [m]uch to my disappointment.” He stated that his apartment was the “safest place...to have this conversation” and that “[i]t would be the safest place to – if it were going beyond this conversation.”

The Director continued his discussion of the two executive position options for the PMO Manager, that of Chief of Staff and COO. He had also raised the option of the Chief of Staff position in the recorded conversation with the PMO Manager during the Rosa Mexicano dinner in June 2016. The PMO Manager responded that she thought she would “be qualified for either position,” and asked the FHFA Director to assure her that any promotion “is just going to be based on merit and fitness for the position, and that there’s nothing else.”

The FHFA Director responded that he thought she was “gorgeous” but didn’t “make agency decisions based on who’s gorgeous and who’s not.” He asserted that his discussion with the
PMO Manager about two executive positions “has nothing to do with either your beauty or
your – or my feelings. But that doesn’t eliminate the feelings or the beauty.”

The Director sought to get the PMO Manager to agree with his perspective about the need to
meet, alone, at his apartment:

But you understand I think you finally came – you finally came to the conclusion that I
did, that this is the safest place to do this, to have this conversation. It would be the safest
place to – if it were going beyond this conversation. But I think you were concerned that
I was luring you here for other reasons. I wasn’t concerned about that.

He added that his apartment was “just a safer place to have a conversation” for the PMO
Manager because she would otherwise have exposure “sitting in a restaurant, going to Blues
Alley, anywhere out in the public” because he was “so well known.”

During his sworn interview, the FHFA Director sought to cast these remarks in an innocent li
ght. According to the Director, he did not have a romantic attraction to the PMO Manager. He
testified that the PMO Manager “started to make periodic visits to [his] office, during which
[they] would discuss work and non-work topics. The increased frequency of those visits” and
the “odd times at which they – the visits started to occur raised [his] suspicions that [the PMO
Manager] could be developing an attraction to [him] that would be inappropriate for either an
employer/employee relationship or a friendship or a mentor/mentee relationship.” For that
reason, he explained that he “requested an off-site meeting with [the PMO Manager] after work
hours for the specific purpose of addressing and hopefully eliminating [his] suspicions about
[her] intentions” and this meeting occurred at Rosa Mexicano in June 2016.

The FHFA Director volunteered that, while en route to Rosa Mexicano, he mentioned to the
PMO Manager that there was an attraction between them that needed to be explored so that he
could ascertain the PMO Manager’s reaction. She “denied that she had any attraction of the
kind I had suspected.” He maintained that he “confirmed that [his] intention was to make sure
there was no confusion about whether there was anything other than ‘an attraction of
friendship’.” The FHFA Director testified that it was that “clarification” from the PMO
Manager “that made it possible for [them] to have [ ] the walk in Rock Creek Park or meet at
a performance venue or even have her come to my house to talk about work,” all of which he
considered appropriate.

With that background, the FHFA Director explained that his remark on the November 11, 2016,
recording that he was “guilty of having an attraction” to the PMO Manager meant only that he
had “a friendship attraction” as he did with “all [his] mentees.” The Director opined that there
was nothing in the recording that was inconsistent with that meaning. He asserted that he has
“told a number of [his] mentees that [he] think[s] they’re gorgeous” and that he has a “friendship attraction” to them. The Director acknowledged that no other female mentees had visited his D.C. apartment. He recalled that an FHFA female IT employee, who has since retired, had visited his apartment “to set up [his] home computing capabilities with the office” but that he was not in “an ongoing mentoring relationship” with her.

The Director also maintained that his reference to line-drawing concerned “[the] line between making decisions based on friendship and making decisions based on my responsibilities as Director” of FHFA. The FHFA Director dismissed his reference to his “disappointment” about drawing the line to be “a joke” and commented that both he and the PMO Manager laughed because “she knew [he] was joking” about whether he had a physical or sexual attraction to her. The Director also expressed his belief that the PMO Manager “knows in her heart that there was no effort [by him] to pursue any kind of romantic relationship with her.”

We are not persuaded by the explanations offered by the FHFA Director. Contrary to his testimony, the recording of the November 11, 2016, conversation reveals that the PMO Manager drew the line in question, not the Director. In the recording the Director is heard to say, “I tried to accept what you told me, the first time you told me” and that “I’m comfortable with drawing the line where you told me I needed to draw it.” (Emphasis added.) As the FHFA Director’s recorded words made clear, the line in question was drawn by the PMO Manager in an effort to place limits on his conduct toward her, which the Director “tried to accept.” Thus, we reject the Director’s explanation for this exchange. We are not persuaded by the Director’s assertion that the PMO Manager considered his statement that he would observe the line “much to [his] disappointment” to be nothing more than a “joke.” Less than a minute after the Director told the PMO Manager that he could “draw[] the line where you told me I needed to draw it,” the PMO Manager said, “I think I’ve definitely had concerns with – well with definitely coming here.”

The Director advised the PMO Manager, in the November 11, 2016, recording, and acknowledged, in both his February 2018 interview and October 2018 testimony to us, that he had sole authority to select candidates to fill executive positions. Had the FHFA Director sought solely to discuss potential advancement opportunities with a mentee, as he maintained, those discussions could, and would, have occurred during business hours in FHFA’s offices.

Moreover, we find the FHFA Director’s alternative explanation is not credible. He asserts that meetings outside FHFA’s office with the PMO Manager were necessary to avoid unjustified suspicions of an inappropriate relationship. But he also maintains that he was concerned that the PMO Manager might have been interested in an inappropriate relationship, and he sought to assure himself that she was not. He acknowledges, in his sworn testimony, that he never met another female mentee at his apartment. Given the Director’s stated
concerns about the interests of the PMO Manager, the Director should have been especially scrupulous about conducting meetings with the PMO Manager in FHFA’s offices. Instead, by his own admission, he treated the PMO Manager differently from other female mentees. A reasonable conclusion is that he did so because he was seeking an inappropriate relationship with her.

We find it more likely than not that the FHFA Director sought to coerce or induce the PMO Manager to engage in some sort of relationship with him that went beyond their existing “friendship” and/or mentorship by inviting her to his apartment (which he characterized as the “safest place to do this, to have this conversation. It would be the safest place to – if it were going beyond this conversation”), and reporting that he was “guilty of having an attraction” to her, by suggesting or implying he would use his official authority to assist her in obtaining an executive position at FHFA which he knew that she sought.27

We are not persuaded by the Director’s assertion that our findings are misplaced because the balance of the recordings of his conversations with the PMO Manager would show “her initiating conversations with me, a lot more than me initiating conversations with her.” Assuming the Director is correct in this regard, the recordings would neither mitigate nor excuse his conduct. There are no circumstances under which it is appropriate for the head of FHFA to induce a subordinate employee to meet with him alone, in his apartment, for a conversation in which he professes his attraction for that employee and holds out opportunities for the employee to serve in specific executive positions over which he exercises total control.

At page 11 of his Response, the FHFA Director complains that we are applying a standard that is “both sexist and inconsistent with current standards of gender equality [and] is also inconsistent with the standard of equality I have been fighting for throughout my professional career.” We stand by our finding: had the Director sought only to mentor this subordinate employee (whether male or female), there would have been no reason to induce that employee to meet at the Director’s apartment, alone, on a federal holiday, and embark upon a conversation in which the Director intermingles comments about his attraction to that employee and admiration of that employee’s physical appearance with a discussion of possible paths by which she could advance into FHFA’s executive ranks.

27 We do not credit the Director’s statement that the possible executive positions he was discussing had “nothing to do with either [her] beauty or [his] feelings” or attraction to her. Were that the case, these discussions would have occurred during office hours within FHFA.
Pursuant to governing federal regulation, 5 C.F.R.§ 2638.107, “an agency head is responsible for, and will exercise personal leadership in, establishing and maintaining an effective agency ethics program and fostering an ethical culture in the agency.” To do so, the Agency head must “demonstrate the importance of integrity and ethical values through [his] directives, attitudes, and behavior” and “lead by an example that demonstrates the organization’s values, philosophy, and operating style.” Otherwise, employees will not believe in or abide by the tenets of the agency’s ethical culture. The Director’s conversation with the PMO Manager on November 11, 2016, certainly calls into question his commitment to gender equality, notwithstanding his public pronouncements.

For those reasons, we find that the FHFA Director violated Section 702 of the Standards when he attempted to coerce or induce the PMO Manager to engage in a relationship with him that went beyond their existing “friendship” and/or mentorship by suggesting or implying he would use his official authority to assist her in attaining an executive position with FHFA.

2. The FHFA Director Was Not Candid

Every agency employee, including the head of an agency, providing information in an OIG inquiry must be fully forthcoming and candid as to all facts and information relevant to the inquiry, even if that employee is not specifically asked about particular facts or information. Thus, an employee must disclose those things that, in the circumstances, are needed to make the employee’s statement complete and accurate.  

At the outset of the interview with the FHFA Director on February 15, 2018, an OIG Investigative Counsel and an OIG Senior Special Agent informed him that they were conducting an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the FHFA Director was not candid during his February 15, 2018, interview for the reasons set forth below.

The FHFA Director stated that he was the only individual in the Agency who: (1) could approve the creation of an executive position in FHFA and (2) could approve the selection of an individual to fill that position. In these circumstances, the existence of his personal relationship

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29 Ludlum v. Dept. of Justice, 278 F. 3d 1280, 1284 (Fed Cir. 2002). See Ludlum v. Department of Justice, 87 M.S.P.R. 56, paragraph 13 (2000), aff’d., 278 F.3d 1280 (Fed. Cir. 2002) (“lack of candor exists when an applicant breaches the duty ‘to be fully forthcoming as to all facts and information relevant to a matter before the FCC, whether or not such information is particularly elicited.’”). Additionally, FHFA employees are obliged to provide OIG “accurate and complete information when requested” under a Memorandum of Understanding between FHFA and OIG in effect at all times relevant to both of our administrative inquiries.
whether a friendship, mentorship, or “whatever it is” – with the PMO Manager was material to an inquiry examining whether an executive position had been properly created and whether the PMO Manager had been afforded preferential treatment. The FHFA Director, however, failed to disclose during his February 2018 interview what he disclosed during his October 2018, sworn testimony: that he considered himself to be the PMO Manager’s friend and mentor, at least since 2016. We now know, from his recorded statements in November 2016 to the PMO Manager that he: was “guilty of having an attraction” to her; and it was “much to [his] disappointment” that he had to “draw[ ] the line” where she told him it needed to be drawn.

There can be no doubt that the information that the Director failed to disclose during his February 2018 interview was material to the first investigation. The focus of that inquiry was whether the executive position had been improperly created and whether the PMO Manager had been preselected for it. Therefore, it was highly relevant whether the Director had any sort of relationship with the PMO Manager. We find that the FHFA Director’s omission of material information regarding the nature and tenor of his relationship with the PMO Manager during his February 15, 2018, interview to constitute a lack of candor.

We also find that the Director was not candid with us when he failed to disclose that he had a plan, dating back to at least June 2016, under which the PMO Manager could advance into FHFA’s executive ranks, as the June 17, 2016, and November 11, 2016, recordings show. In the recorded conversations of June 17, 2016, the Director appears to have raised the opportunity for the PMO Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. In the recorded conversation of November 11, 2016, the Director explained, “our original plan was to – at least one of the options that we were looking at was to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” After recounting the reasons that this plan “wouldn’t have been a good idea anyway,” the Director described the scenario under which another executive position, COO, might become vacant, creating a vacancy for the PMO Manager. The Director’s “plan” for the PMO Manager to obtain an executive position was material, particularly when the Director retained sole authority to create executive positions and appoint individuals to them. We find the Director’s omission of material information during his February 15, 2018, interview regarding his “plan” for the PMO Manager to obtain an executive position to constitute a lack of candor.
CONCLUSIONS ............................................................................

We provided a draft of this report to the FHFA Director; his November 26, 2018, written Response is attached as the Appendix. The Director’s response is notable for what it does not contain. Nowhere does the FHFA Director deny that: (1) he invited a subordinate employee to meet with him alone, in his apartment; (2) during that meeting, he professed his physical attraction for that employee and held out opportunities for that employee to be promoted into specific executive positions; and (3) he knew this subordinate employee sought these executive positions over which he exercised total control.

Nor does the Director offer any evidence or assertions that contradict our findings. Rather, he claims that this report is incomplete because we lack the balance of the recordings made by the PMO Manager of her conversations with the Director. The Director states that the missing recordings would show that the PMO Manager, and not the Director, initiated most of the conversations. The Director, however, does not explain why that information would be exculpatory to a claim of misuse of government position for personal gain.

Lacking any exculpatory facts, the Director criticizes the inquiry that brought his misconduct to light. In particular, the Director alleges that: the report represents a “rush to judgment” so we could vindicate our independence and integrity; we improperly investigated a matter under Title VII and compromised FHFA’s EEO process; our administrative inquiry was flawed; and we misled a federal court in our subpoena application. For the reasons set forth in this report, we flatly reject each of the process issues raised by the FHFA Director.

We follow the facts wherever they lead and we report the good and the bad. When our fact-finding identifies deficiencies in FHFA’s programs and operations, shortcomings in FHFA’s implementation of policies and guidance, inadequate internal controls, or wrongdoing by FHFA employees or senior executives of the conserved entities, we report the evidence that demonstrates the deficiencies, shortcomings, or wrongdoing, in accordance with professional standards. This inquiry and report were conducted in conformance with CIGIE Quality Standards for Investigations and the CIGIE Quality Standards for Federal Offices of Inspector General. We stand by the integrity of our administrative inquiry and by our two findings.

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the OGE and to our congressional oversight committees. We are referring to the OSC the allegations about[b](b)(7)(C) for its review and determination.
MEMORANDUM

DATE: November 26, 2018

TO: Leonard J. DePasquale and Laura Werthheimer, Office of the Inspector General, Federal Housing Finance Agency

FROM: Melvin L. Watt, Director, Federal Housing Finance Agency

RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR MELVIN L. WATT

I strongly disagree with this Draft OIG Report of investigation (Draft OIG Report or Draft Report) and its “Findings.” The Draft OIG Report reflects that the real interests of the FHFA OIG in this matter have turned out to be deflecting attention away from the OIG’s own involvement in causing Ms. Simone Grimes to file legal claims against FHFA, getting a quick result, and protecting the OIG from political criticism, instead of making an effort to obtain and fairly report the facts. Additionally, both Finding 1 and Finding 2 are not supported by the facts in this case. Anyone reading this Draft Report (or the final OIG report, which I apparently will not be provided an opportunity to review and respond to) should be concerned that other interests have taken priority over the facts and should take special note of the following Response in evaluating whether the final OIG report or any of its conclusions should be considered.

In support of this Response, attached hereto are the following documents to which I make reference in this Response to ensure that the reader has a more complete understanding of all facts and circumstances related to this matter:

1. Exhibit 1: Copy of letter from Leonard J. DePasquale dated November 15, 2018 and the Draft OIG Report to which this Response is being made.
2. Exhibit 2: Copies of emails from me and/or my attorney to Leonard J. DePasquale, General Counsel of the FHFA OIG dated November 16, 17, and 19, 2018 requesting an extension of time to prepare and respond to the Draft OIG Report and requesting a copy of Appendix A referenced in the Draft Report, and emails from Mr. DePasquale denying both requests;
3. Exhibit 3: Memorandum in Support of Petition of the United States to Enforce Subpoena Issued by the Inspector General of the Federal Housing Finance Agency;

4. Exhibit 4: Copy of my deposition provided under oath at the request of the FHFA OIG on October 11, 2018;

5. Exhibit 5: Transcript of recorded conversation between me and Ms. Grimes on May 10, 2018;


The FHFA OIG should have recused itself from this matter because of real conflicts of interest as well as the appearance of a conflict of interest. The OIG has two real conflicts of interest and the appearance of a third conflict of interest which should have caused the OIG to recuse itself from this investigation.

1. The FHFA OIG was intimately involved in delaying Ms. Grimes’ being able to compete for a position of advancement within FHFA and in the delays that ultimately led her to file an EEO complaint against FHFA. As confirmed on pages 4 – 5 of the Draft OIG Report, after sitting on two hotline complaints it received in the summer of 2017 and not starting an investigation of these complaints until January 2018, the FHFA OIG “requested that FHFA place a ‘legal hold’ on the position” for which Ms. Grimes was ultimately selected. That “legal hold” was not lifted until May 2018 because FHFA OIG took that long to complete its initial investigation. Essentially, the OIG made it impossible for FHFA to advance Ms. Grimes within FHFA from the summer of 2017 until May of 2018 because it dragged its feet on an investigation that could and should have been completed long before it was.

2. The FHFA OIG breached Ms. Grimes’ confidentiality when the IG revealed to me that Ms. Grimes had filed an EEO complaint against FHFA and by communicating to me that Ms. Grimes had been recommended unanimously by the interview team from among the candidates for the executive position at issue in the hotline complaints that started in the
summer of 2017. I had no knowledge of either of those facts until the Inspector General communicated them to me.

3. Allegations have been made that the Inspector General has been “too cozy” in her relationship with me and, as a result, that the FHFA OIG has not been as aggressive as it should have been in evaluating me and the work of FHFA. These allegations have been reported in the press and have been under investigation by the unit that oversees U.S government offices of Inspectors General. While I do not agree with the allegations that have been made against the FHFA OIG, the fact that they have been made and are under investigation creates the appearance of a conflict of interest that could undermine fairness and the perception of fairness in this matter.

The Draft OIG Report acknowledges that the OIG has prioritized getting to a quick result over obtaining the facts.

Ms. Grimes stated under oath in her signed declaration to the U.S. Postal Service investigator as follows: “I have recorded all conversations with Watt from 2016 to present.” (See page 19 of Declaration A in the Postal Service Report). Ms. Grimes selectively produced parts of audio tapes of these conversations to the Postal Service Investigator and the FHFA OIG has relied on the Postal Service Report in preparing the Draft OIG Report. (See pages 9 – 11 of Exhibit 1). When FHFA-OIG subpoenaed all the tapes, Ms. Grimes did not produce them. The government sued to enforce the subpoena. On August 10, 2018, the government lawyers on behalf of FHFA-OIG represented to the U.S. District Court that the audio recordings in the exclusive possession of Ms. Grimes “are essential to FHFA-OIG’s ability to conduct its investigation.” (See Exhibit 3, page 1). On October 5, 2018 the District Court issued an Order requiring production of these recordings based on that written representation. The FHFA OIG’s acknowledgement on page 11 of its Draft Report that “we [the FHFA OIG] determined that the exigencies of time required us to complete our administrative inquiry based on the information we had obtained and report our findings, without the materials in the PMO Manager’s [Ms. Grimes’] possession” is not only directly contrary to representations made to a United States District Court in the OIG’s behalf, it is a
stunning admission by the OIG that it has placed getting a quick result over getting the facts in this case.¹

The FHFA OIG has provided no explanation of what “the exigencies of time” are. In the absence of such an explanation, the timing of this Report can only further politicize this matter for which claims have already been filed and litigation is already pending in the established and appropriate legal forums at the EEOC and in court.

If “the exigencies of time” relate to the fact that my term as Director of FHFA ends on January 6, 2019, in these partisan political times Democrats will no doubt question whether the urgency of filing this Report was motivated by a desire to have the President consider removing a democratic appointee as Director of FHFA within the last 35 days of his term in the position. Republicans, on the other hand, will no doubt question whether the urgency was motivated by a desire to place the President in an embarrassing or uncomfortable political dilemma in light of the history of harassment allegations against him.

The real answer, of course, is that there are no “exigencies of time” and no reason for the OIG to elevate getting a quick result over getting the facts. The discussion on pages 9 – 14 of the Draft OIG Report as well as statements I made throughout my deposition (Exhibit 4) confirm, as I have asserted throughout this process, that no fair assessment of the facts in this case can be made without all of the audio recordings. The Draft Report also confirms the real prospect that the purported transcripts, and the recordings themselves, may have been tampered with (See especially footnote 16 on page 11 of the Draft Report) and that the represented dates of the recordings certainly are inconsistent with the dates on which meetings took place (See pages 137 – 141 of Exhibit 4 and footnote 12 on page 9 of the Draft OIG Report).² As I stated on pages 152-153 of Exhibit 4:

But I think if what she’s saying is I’ve recorded every phone – every conversation we’ve had since 2016, then the best evidence of that would

¹ I am also disappointed that the OIG’s rush to judgment also led the OIG to deny me the common courtesy of the short extension of time I requested to respond to the Draft OIG Report under the circumstances reflected in Exhibit 2.
² Footnote 12 on page 9 of the Draft OIG Report suggests that the OIG cares little about credibility or the facts even when evidence is available. Even in the face of documentary evidence that Ms. Grimes has provided dates that are incorrect, the OIG has distressingly chosen to use factually incorrect information.
be the recordings, which is exactly what I’ve been saying all along. I mean –
that’s why I’ve been anxious to get all of the recordings because I think if
you looked at this in its totality, it won’t be me pursuing Ms. Grimes, it
won’t necessarily be her pursuing me either, but it will be her initiating
conversations with me, a lot more than me initiating conversations with
her. And there won’t be many of either of those things, I think, in 2017,
2018.

While it is strange that an employee would be recording conversations between
the employee and supervisors or other employees since 2016, if such recordings
exist they certainly are critical evidence for anyone interested in getting the facts
about what actually happened and would certainly be important in assessing the
credibility of the people recorded. This is especially true where the employee
who has such critical evidence has refused to cooperate with the OIG’s
investigation, where it is clear that the recordings “stop and start” (Draft Report,
page 9) and do not contain the full conversations, where there is some indication
that the recordings may have been tampered with, and where it is clear that the
parts made available to the public and the investigator have been carefully
selected and leaked in an effort to color the public’s perception of the employee
and to enhance the employee’s legal position. Where one witness has been fully
cooperative and provided sworn statements under oath to the OIG, it is fair to ask
why the OIG is questioning the credibility of the one who has been cooperative
while refusing to pursue the best evidence available on the facts and on credibility
simply because it would take too long to do so. Without justification, the FHFA
OIG simply abandoned the lawsuit to get the recordings to get to a quick
conclusion of its investigation and to avoid criticism.

The Draft OIG Report’s first contention that I misused my official position to
attempt to obtain a personal benefit is simply unfounded.

Having been publicly chastised in the political arena for violating its obligation to
protect Ms. Grimes from having her identity revealed publicly, the FHFA OIG in
this Draft OIG Report now positions itself as investigator, prosecutor, judge and
jury by ignoring the allegations made in the second round of hot line complaints
and, instead, manufacturing allegations no one has ever made, bending facts and
taking them out of context, and treating my reputation as collateral damage in its rush to prove that the IG has not been too cozy in her relationship with me.

1. While I have acknowledged having a number of conversations with Ms. Grimes about her interest in advancing at FHFA, almost all of which were initiated by Ms. Grimes (apparently with recorder in hand), there is simply no evidence that any of those conversations or anything else I did was intended to obtain any personal benefit for me.

If the presumed personal benefit imagined by the OIG was that I was seeking a sexual encounter with Ms. Grimes, surely I would have attempted some physical contact with her over such a protracted period. At no time during the 4+ years I have known Ms. Grimes have I ever attempted to have any physical contact with her, and Ms. Grimes has affirmed that under oath. The Postal Inspector’s Report states as follows on page 47 of the investigative summary:

Ms. Grimes acknowledged that Director Watt never groped her nor touched her. Ms. Grimes testified, “We have never been intimate in any fashion; specifically, we have never held hands, kissed, or engaged in any sexual activity.”

The FHFA OIG had a full copy of the Postal Inspector’s Report available in the preparation of its Draft Report and a full copy has previously been made available to all recipients of this Draft OIG Report.

My testimony on lines 13 – 22 on page 136 and lines 1 – 19 on page 137 of my deposition (Exhibit 4 to this Response) also confirms that I avoided any physical contact between me and Ms. Grimes.

2. Just as the FHFA OIG demonstrated an apparent willingness to have the Justice Department deceive the United States District Court as described earlier in this Response, in multiple ways in its dealings with me and my attorney and in the Draft Report the OIG has been deceptive or dishonest, has reported discussions out of context, misrepresented or distorted them, or attempted to interpret them in ways that are simply inconsistent with reality.
In the days leading up to my October 11, 2018 deposition (Exhibit 4), my attorney made several efforts to determine the nature and scope of the OIG’s investigation because the Inspector General had testified before the House Financial Services Committee that the OIG had no role to play with respect to EEO complaints and because we had not (and still have not) been provided a copy of any of the hotline complaints. The OIG investigator (Mr. Rich Parker) was ambiguous, at best, about what and who was being investigated. During the course of my deposition, however, the following exchange took place (see lines 1 – 11 on page 106 of Exhibit 4):

[Watt]: So let me just explain the sequence of events so that you’re clear. I would say between – well, it might be better for me just to read it to you because I have been preparing my responses to interrogatories on the EEO matter. I don’t know ---

Mr. Parker: We’re only looking into the hotline complaints, sir.

The Witness [Watt]: I didn’t understand the distinction that Laura was making when she testified, and I still don’t understand it.

Mr. Parker’s statement in the above exchange confirmed that the OIG was “only looking into the hotline complaints.” Multiple statements from the Draft OIG Report also confirm Mr. Parker’s statement that the OIG’s investigation should have been confined to the hotline complaints, and should not have been about the EEO matters which are being pursued in separate legal proceedings and about which the Inspector General has testified that the OIG has no role and no authority to investigate. The OIG states on page 1 of the Report at the very outset of the Report:

This inquiry was conducted by the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) into allegations raised in anonymous hotline complaints that an executive position had been created inappropriately and unnecessarily in the Office of the Chief Operating Officer (OCOO) of FHFA and that the Manager of the Project Management Office (PMO Manager) had been pre-selected for this position.
This is the second administrative inquiry involving the creation of this executive position and pre-selection of an employee to fill this position.

On page 2, the OIG Report states:

In the wake of the PMO Manager’s email messages, we received three additional hotline complaints which alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager.

We opened a new administrative inquiry into these complaints, and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). The inquiry focused solely on possible misconduct by the FHFA Director. 3

On page 8, the Draft OIG Report states:

In the wake of the emails sent by the PMO Manager, we received three anonymous whistleblower complaints. They alleged that the FHFA Director abused his government position for personal gain by creating an unnecessary position for the PMO Manager.

We opened a new administrative inquiry into these complaints and added the five prior anonymous hotline complaints which also alleged the executive position had been created (and for which we had previously completed our work). This inquiry focused solely on possible misconduct by the FHFA Director.

As we did before, we are referring to the OSC [Office of Special Counsel] the allegations regarding improper creation of a new executive position, and pre-selection of the PMO Manager. We are also providing to OSC the evidentiary record we compiled in this

3 Note that this Draft OIG Report was the first time I became aware that this inquiry was focused solely on me.
second inquiry, given that the OSC has the statutory authority to
determine whether FHFA senior executives engaged in any

We set forth, in Appendix A, a
summary of the facts we found during this second inquiry concerning
the creation of the new executive position within OCOO.

As confirmed in Exhibit 2, the FHFA OIG has refused to provide me or my
attorney a copy of the Appendix A referenced above and apparently does
not plan to provide a copy of Appendix A to any recipients of the OIG
Report other than the OSC. However, it should be noted that Appendix A
(which I have never seen and apparently will not have the right to review
and respond to) contains the OIG’s report on the very allegations contained
in both sets of hotline complaints, whether an executive position was
created improperly in the OCOO. Appendix A is also the report that the OIG
has repeatedly and erroneously represented that the Draft OIG Report is
about.

This Draft OIG Report, however, is not about the matters alleged in the
hotline complaints. Having concluded that the OSC has the exclusive
authority to “determine whether FHFA senior executives engaged in any
by creating an executive level position in
OCOO and having no evidence that I engaged in any such prohibited
personnel practice based on my testimony at pages 6 – 71 of Exhibit 4 and
the absence of any other evidence to support that contention, the OIG
should have concluded its investigation. Instead, the FHFA OIG turned its
investigation and this Draft OIG Report to the very things that are the
contested issues in the EEO matter about which the Inspector General
tested before the House Financial Services Committee the OIG has no
authority to investigate.

The Draft OIG Report relates to matters that occurred long before the PMO
even became a part of OCOO and before the executive level position was
even thought about or created, not to any matters alleged in any of the
hotline complaints. In the investigation of these unrelated matters the
FHFA OIG has positioned itself as investigator, standard setter, prosecutor,
judge and jury in an apparent effort to demonstrate the IG’s distance from
me. In that process, the OIG demonstrates an even greater willingness to misstate and misconstrue facts and the OIG has set its own inappropriate standards and drawn conclusions ("Findings") that are inconsistent with reality and lack any evidentiary support.

The OIG’s conclusions on pages 3 and 19 of the Draft Report, for example, that I “induced” Ms. Grimes to meet with me at my apartment is simply inconsistent with the documentary evidence. The following texts between me and Ms. Grimes prior to the meeting at my condo, which the OIG has apparently chosen to ignore, appear on pages 202 - 203 of the Attachments to Declaration A of the Postal Inspector’s Report:

Grimes: I have a few hours tomorrow between 1 and 3.

Watt: Do you have more, less or no time on Sat or Sun instead? How do you calculate that the time between 1 & 3 is a “few” hours?

Grimes: LOL. It’s a lot of time for me.

Watt: Sat or Sun or is my option only the “few” hours between 1 and 3 tom?

Grimes: Yes Friday.

Watt: OK. I assume you’ll tell me more tomorrow or at some point.

Grimes: Can we meet at 1 tomorrow?

Watt: You can let me know where.

In light of this exchange, particularly the last text, it is just disingenuous for the OIG to reach the conclusion it has reached.

Likewise, the Draft Report states on page 18 that the “The Director acknowledged that no female mentees had visited his D.C. apartment” and on page 19 the Draft Report repeats that “He acknowledges that he never met another female mentee at his apartment.” Both of these statements are directly contrary to my testimony at lines 18 – 22 on page 102 and lines 1 – 8 on page 103 of Exhibit 4 at which the following exchange took place:

Q. Just so I’m clear, that means you socialize with other mentees?
A. Yes.
Q. And you meet with them one-on-one as well?
A. Yes.
Q. For dinners, concerts?
A. I have, yes. I have, yes.
Q. And have other mentees met you at your home alone?
A. Yes.
Q. Have they met with you when other individuals are present?
A. Yes.

Perhaps the OIG thought that no one would take the time to go behind the misstatements in its Draft Report to review or pay attention to the real record on which its unfounded conclusions were drawn.

It is also clear from the OIG’s questions and from its Findings in the Draft Report that the OIG is applying a standard that is both sexist and inconsistent with current standards of gender equality. It is also inconsistent with the standard of equality I have been fighting for throughout my professional career. Throughout the questioning and the Report, the OIG has been consumed with how my friendship and mentorship with Ms. Grimes compares to my friendship and mentorship with other female employees, ignoring all the while how they compare with my friendships and mentorships of male employees. The OIG’s Draft Report finally concludes on page 19:

Instead, by his own admission, he [Watt] treated the PMO Manager differently from other female employees. A reasonable conclusion is that he did so because he was seeking an inappropriate relationship with her.

While the OIG may consider that a “reasonable conclusion,” it is also a sexist conclusion and one that men and women alike should find objectionable because it assumes that a man can’t be a friend of or mentor a woman without “seeking an inappropriate relationship with her.”

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conclusion is inconsistent with everything I have supported and fought for throughout my professional career. I tried to explain this to the OIG from my own personal perspective on pages 112 – 115 of Exhibit 4 as follows: 4

And, equally, you know, you really – you kind of have to know where I come from.

I practiced law in a civil rights law firm that did extensive employment discrimination work. And in our firm we really never distinguished between men and women in the way – I mean, the whole objective here is to get to a point where you don’t have to be suspicious if you invite a female to do something that you would be – not be suspicious about if you invited a male to do it. That’s equality from my perspective.

And so I’ve always tried to approach male and female friends and mentees in much the same way. And I carry – for 22 years we fought for this in the courts, landmark decisions to do away with employment discrimination. When I went to Congress, I took the same concept. It’s in my DNA. When I came here, it’s a bigger agency, and I’ve tried to follow the same concept. I haven’t had – well, I’ve had as many friendships, but not as many mentoring relationships as I have had, although I’ve had a number in the period I’ve been here, not only with employees, but with the children of employees.

So you know, that’s who I am. And now I’m not sure that that’s, you know – I’m the first to tell you, this is in a sense a wake up call, it’s a depressing wake up call when I know there are men in this agency who have visited my house in Charlotte, who have visited my condo, who I have much, much closer relationships with than the relationship I have with Ms. Grimes. And somehow the public is now saying that kind of equality is unacceptable. And, in my view, it’s time for me to ride off into the sunset because the standards have

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4 See also pages 93 – 100 of Exhibit 4.

This document contains data or personally identifiable information that is protected under the Privacy Act of 1974 (Pub.L. 93-579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a). It is for official use only. Unauthorized disclosures of this information can result in civil, criminal, or administrative penalties.
become so confused that it’s difficult to operate in them. (pages 112–113)

But I think we’re setting ourselves up for a very unequal situation here. And I’m kind of glad I don’t have to deal with it beyond January 6 of 2019, because that’s just not the way I have lived the last 22, plus 21, plus almost 5 years of my life now. (pages 114 -115)

The Draft OIG Report’s second Finding that I was not candid is also unfounded.

The Draft OIG Report concludes on page 21:

We find the Director’s omission of material information during his January 15, 2018, interview regarding his ‘plan’ for the PMO Manager to obtain an executive level position to constitute a lack of candor.

Apparently, the OIG’s theory is that I had some grand “plan” dating back to June or November 2016 to create an executive level position for Ms. Grimes and that the “plan” resulted in the approval of the executive position in OCOO. The theory, however, is simply inconsistent with the facts. No such plan ever existed and the notion that I had an obligation to reveal a plan that never existed and that had nothing to do with the original hotline complaints is nothing short of bizarre. Further, it would have required a giant conspiracy with multiple other parties, none of whom have supported the OIG’s contention.

The OIG’s theory appears to relate to discussions, which the Draft OIG Report disingenuously takes out of context, dating back to 2014 about where the Project Management Office (PMO) should be placed within FHFA. As I testified (page 10, line 19 to page 11, line 15 of Exhibit 4):

I can tell you that the decision to move the PMO office out of DOC [the Division of Conservatorship] to the chief operating officer’s jurisdiction had been basically a two-year process, and there’s substantial documentation of that. When I got here in 2014, we thought there were actually two offices that were probably misplaced in the agency, one of them – after some period of time,
and just kind of feeling our way around. One of them was the project management office, the other one was the compensation office.

And the reason we thought they were misplaced is that they were in – they were in one particular branch of the organization, and they served the entirety of the organization. And so the thought process about changing the PMO out of the DOC to put it somewhere that was more universally accessible to all parts of the agency started as – probably as early as 2015.

The OIG’s theory also ignores my testimony on lines 17 – 22 of page 128 of Exhibit 4:

We decided – we looked at the possibility of putting the PMO office under the chief of staff before we – that was one of the options, we didn’t – it didn’t seem to make a lot of sense to me, but that was an option that was discussed at one point.

The OIG’s theory also ignores other important facts:

1. I had no indication that the hotline complaints that led to the OIG’s first investigation involved any allegations of impropriety on my part because they did not. The following from page 1 of the Draft OIG Report is instructive on this point:

   We first received anonymous hotline complaints in the summer of 2017 alleging that: 1) [redacted] inappropriately created an executive position in the Office of the Chief Operating Officer (OCOO) for an FHFA employee, the PMO Manager; 2) [redacted] advised two senior FHFA employees “not to bother applying for the job”; and 3) the creation of a new executive position was inconsistent with FHFA’s prior buy-out.

2. I did not then, nor do I now, believe that the approval of a buy-out or the approval of the creation of an executive position in OCOO represented anything other than approvals of sound business recommendations made by FHFA executives whose judgments I trusted.
3. I did not then, nor do I now, believe that either of these decisions related in any way to discussions with employees, including Ms. Grimes, about employment or advancement opportunities at FHFA or elsewhere, discussions I regularly engage in with employees in the regular course of business.

4. I did not know who would apply for the executive position in OCOO, did not participate in any way in the interview or selection process, and did not know Ms. Grimes had applied and become the unanimously recommended applicant until that was revealed to me by the Inspector General at the end of the OIG’s investigative process, long after I had been interviewed by the OIG in connection with the first round of hotline complaints on February 15, 2018.

5. When I became aware that Ms. Grimes had been recommended for selection to the executive position in OCOO I recused myself from the process and have not been involved in any decisions regarding the position since then.

6. I did not become aware that Ms. Grimes was making any sexual harassment allegations against me or that she believed she had any basis for making any such allegations until she told me on May 10, 2018 in a phone conversation. As I said on lines 9 and 10 on page 114 of my deposition “There was nobody more shocked than I was, May 10, in that recording.” (See lines 9 – 22 on page 114 and lines 1 – 4 on page 115 of Exhibit 4). I vigorously dispute Ms. Grimes’ allegations and the May 10, 2018 conversation reflected in Exhibit 5 confirms my surprise and strongly suggests that these allegations were added as part of Ms. Grimes attorneys’ strategy to enhance her legal claims against FHFA.

Conclusion.

Contrary to the conclusions reached by the OIG and reported in its Draft Report, no decision I have made during my tenure as Director of FHFA, either policy, personnel or otherwise, has been for personal gain or based on personal relationship or any other improper motivation. Neither have I failed to be candid or sought to deceive anyone. Despite that, it is clear that the allegations in this matter and the context from which they arose have resulted in severe distress to my family, to FHFA and to many others. For that, I express sincere regret.
RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018

EXHIBIT 1
Part 1 of 2
Via Hand Delivery

Melvin L. Watt
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20219

In re: Draft OIG Report of Investigation into Allegations of Misconduct Against FHFA Director Melvin L. Watt

Dear Director Watt:

As authorized by your attorney, Mr. Raymond Fay, Esq., enclosed is a draft report of the administrative inquiry into allegations of misconduct against you, prepared by the Federal Housing Finance Agency, Office of Inspector General (FHFA-OIG).

The attached draft report contains information that is protected by the Privacy Act of 1974, 5 U.S.C. § 552a. The release of this report or its contents to third parties is prohibited by law, unless such release is authorized under the Privacy Act.

We are providing a copy of this draft report to you as authorized by 5 U.S.C. § 552a(b)(1) for the official purpose of obtaining your response, if any, which will be included in our final report to the White House. Should you wish to provide a response to this draft report, please send it to me by Noon, Monday November 26, 2018, via my email at

FHFA-OIG intends to issue the unredacted report, together with any response provided by you, to the White House, Congressional Oversight Committees, the Office of Government Ethics, and the U.S. Office of Special Counsel by close of business on November 26, 2018.

Please feel free to have Mr. Fay call me with any questions. I may be reached at

Sincerely,

[Redacted]

Leonard J. DePasquale

Non-Public
Summary

This inquiry was conducted by the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) into allegations raised in anonymous hotline complaints that an executive position had been created inappropriately and unnecessarily in the Office of the Chief Operating Officer (OCOO) of FHFA and that the Manager of the Project Management Office (PMO Manager) had been pre-selected for this position.

This is the second administrative inquiry involving the creation of this executive position and pre-selection of an employee to fill this position.

We first received anonymous hotline complaints in the summer of 2017 alleging that: 1) inappropriately created an executive position in the Office of the Chief Operating Officer (OCOO) for an FHFA employee, the PMO Manager; 2) advised two senior FHFA employees “not to bother applying for the job”; and 3) the creation of a new executive position was inconsistent with FHFA’s prior buy-out. At the conclusion of our fact finding for that first administrative inquiry, we formally referred the matter to the Office of Special Counsel (OSC) and provided the OSC with a summary of the facts found during that inquiry. On May 3, 2018, the OSC provided us with its preliminary determination that the record as it then existed did not support the allegations that the new executive position had been created improperly or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection for it. On May 7, 2018, we provided OSC’s written preliminary determination to FHFA and informed the Agency that we had completed our administrative inquiry and planned to close it.

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA’s Office of Equal Employment Opportunity (EEO) alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of 1964 (as amended). Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims. FHFA contracted with the United States Postal Service (USPS) to gather facts and information regarding the PMO Manager’s sexual harassment claim. This fact gathering began on June 14, 2018.

On July 3, 2018, while fact gathering was ongoing, the PMO Manager used her FHFA computer and email address to forward to her counsel an email exchange she had with the contract investigator regarding her disparate treatment claims. She also blind-copied this message to over 100 FHFA managers. The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not. Several minutes later, the PMO Manager re-forwarded that email message to her counsel and, once again, the FHFA managers. Attached to that re-forwarded message was an audio file containing a recording of a conversation between the PMO Manager
and the FHFA Director, as well as three purported transcripts of other conversations between the PMO Manager and the FHFA Director which were prepared by the PMO Manager. Shortly thereafter, the PMO Manager sent a third email to the more than 100 FHFA managers that read “Sorry – this was sent in error – please disregard [sic].” The body of that email contained the same string of communications as the first two messages.

In the wake of the PMO Manager’s email messages, we received three additional hotline complaints which alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager. We opened a new administrative inquiry into these complaints, and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). This inquiry focused solely on possible misconduct by the FHFA Director.

We requested and received information from FHFA and the PMO manager. We also served subpoenas on the FHFA Director and the PMO Manager; and we interviewed 20 witnesses, including the FHFA Director. Initially, counsel for the PMO Manager cooperated in our inquiry, and provided us with 6 audio recordings of conversations between the Director and the PMO Manager and a total of 8 transcripts of conversations between them, some of which were prepared by the PMO Manager. Thereafter, the PMO Manager declined to cooperate further. She refused to be interviewed by OIG, and she did not comply with FHFA’s request to return her government-issued cellphone. She also did not comply with our administrative subpoena for audio recordings she made of conversations with the FHFA Director and other materials, even after an Order from a United States District Court required her do so.

The PMO Manager stated under oath in the USPS fact gathering process that she recorded every conversation she had with the FHFA Director from 2016 through 2018, and that twice a week she attended regularly scheduled senior staff meetings, which the Director also attended. Therefore, her statement leads us to believe that she may have additional recordings of conversations between her and the FHFA Director, which, despite our best efforts, we have been unable to secure. However, we have determined that the information we obtained during our administrative inquiry provides a sufficient basis on which to reach two findings of misconduct by the FHFA Director. We are issuing this report now because we have a statutory obligation to timely report misconduct by senior agency officials. Our two findings are:

The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

Section 702 of the Standards of Ethical Conduct for Employees of the Executive Branch (the Standards) prohibits an officer or employee from using any authority associated with his federal
office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise. The FHFA Director is bound by the Standards. We found that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in a personal relationship with him by suggesting or implying he would use his official authority to assist her in attaining an executive position with FHFA.

The FHFA Director advised the PMO Manager, and reported to us, that only he could approve the creation of a new executive position and the selection of a candidate to fill it. By his own design, he met alone in his apartment with the PMO Manager, a female subordinate who the Director knew desired a promotion to an executive position in the Agency, and raised two possible opportunities for such a promotion. In a recording of a portion of their conversation in the FHFA Director’s apartment, the FHFA Director can be heard to intermingle comments about his attraction to the PMO Manager and his admiration of her physical appearance with a discussion of possible paths by which she could advance into FHFA’s executive ranks.

We find that there are no circumstances under which it would be appropriate for the head of FHFA to induce a subordinate female employee to meet with him alone, in his apartment, for a conversation in which he professes his attraction for that employee and holds out opportunities for the employee to serve in specific executive positions over which he exercises total control.

The FHFA Director Was Not Candid

Every agency employee, including the head of an agency, providing information in an OIG inquiry must be fully forthcoming and candid as to all facts and information relevant to the inquiry, even if that employee is not specifically asked about particular facts or information. Thus, an employee must disclose those things that, in the circumstances, are needed to make the employee’s statement complete and accurate.

At the start of our interview with the FHFA Director on February 15, 2018, in connection with the initial administrative inquiry regarding these matters, we advised the Director that his interview was part of an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the Director lacked candor when he omitted information that was material to our inquiry. Specifically, he omitted 1) any mention of his personal friendship with, and mentorship of, the PMO Manager; and 2) that he had a “plan,” dating back to at least June 2016, under which the PMO Manager could advance into FHFA’s executive ranks.

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the Office of Government Ethics and to our Congressional oversight committees. We have referred to the OSC the allegations about [b](6)(B)(7)(C)
for its review and determination. Appendix A to this report is a summary of the facts we compiled during our administrative inquiry, and that summary has been provided to the OSC.

**Background**

In the summer of 2017, the FHFA Office of Inspector General (OIG) received two anonymous hotline complaints which included allegations that: 1) 
- inappropriately created an executive position within OCOO for an FHFA employee, the PMO Manager;
2) advised two senior FHFA employees “not to bother applying for the job;” and 3) the creation of a new executive position was inconsistent with FHFA’s prior buyouts.

We forwarded the anonymous complaints to an FHFA Deputy General Counsel (DGC) and requested a response within 30 days. On September 15, 2017, that DGC reported to us that did not create a new executive position for the PMO Manager. According to that DGC, recommended to the FHFA Director that a new position be created to oversee the management of the Office of Quality Assurance (OQA) and the Project Management Office (PMO). The OQA was located in the OCOO and the PMO was being relocated from the Division of Conservatorship (DOC) to the OCOO. The FHFA Director approved recommendation, in writing, on July 14, 2017. The DGC advised us that FHFA had not advertised the opening for that new position, and that intended to ask to reconsider filling that position. He subsequently reported that intended to advertise the position and fill it.

On November 20, 2017, FHFA posted a job announcement for the new executive position, which was open only to FHFA employees and only for two weeks. On November 27, 2017, the DGC agreed to notify us before FHFA offered the new executive position to anyone.

**OIG’s First Administrative Inquiry**

We received three additional anonymous hotline complaints concerning the new executive position, after it was posted.

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1 Her official position was Supervisory Management & Program Analyst. Within FHFA’s Division of Conservatorship and at the time was considering whether to create a new executive position within OCOO, her title was Senior Advisor and PMO Manager.

2 The DGC further reported that denied “discourag[ing] FHFA employees from applying” for the position, and he credited that denial.
From January to March 2018, we conducted an administrative inquiry into the five hotline complaints, all of which were directed at the Agency and (b)(5);(b)(7)(C). None of the allegations suggested an improper relationship between the PMO Manager and the Director. In the course of our inquiry, we reviewed relevant Agency documents and interviewed 12 witnesses, including the FHFA Director and the PMO Manager. In January 2018, we requested that FHFA place a "legal hold" on the position, pending the outcome of our inquiry into the allegations in the hotline complaints, to which FHFA agreed.

Interview of the FHFA Director

The FHFA Director was interviewed on February 15, 2018. He reported that, several years ago, he determined to retain sole authority to approve the creation of all executive positions within FHFA because he wanted to have the appropriate number of executives in the agency. He further explained that, pursuant to a directive issued by President Trump, each agency had to consider whether any vacant executive position could be eliminated and must justify the creation of any new executive position. According to the Director, he had to be satisfied that any new executive would increase the Agency’s efficiency.

He stated that a number of FHFA employees, including the PMO Manager, expressed frustration that promotions to executive positions were available only through attrition because FHFA was “top-heavy.”

The FHFA Director explained that beginning in 2016, there was a consensus among FHFA senior executives to transfer the PMO from DOC to OCOO, and that this transfer was a priority for 2017. However, he maintained that the allegation that (b)(5);(b)(7)(C) lobbied to create a new executive to manage the PMO for a specific employee was untrue. He denied both that he approved the creation of the new executive position in OCOO expressly for the PMO Manager and that the PMO Manager lobbied him directly to create an executive position for her.

The FHFA Director explained that he also retained sole authority to select a candidate to fill an executive vacancy. He stated that he usually followed recommendations made by his subordinates in selecting individuals to fill executive positions. He told us that he was unaware

3 This inquiry was conducted by career law enforcement personnel and career investigative counsel.

4 In January 2018, a panel concluded interviews of the candidates for the new executive position and determined that the PMO Manager was the most qualified candidate.

5 In effect at the time that the FHFA Director approved (b)(5);(b)(7)(C) recommendation to create a new executive position was FHFA’s Order No. 4, “Delegation of Authority to Approve Personnel Actions, Determinations, and Requests,” which was issued by the previous FHFA Director on January 5, 2009. Under that order, the FHFA Director retained the authority to approve requests for executive positions. The current FHFA Director explicitly retained that authority when he replaced Order No. 4 with Order No. 4, Amendment No. 4 on September 15, 2017. In addition, on February 10, 2017, the FHFA Director sent a memorandum to all FHFA executive staff requiring them to “make a compelling case” for any new position and the need to fill it in response to the “Presidential Memorandum Regarding the Hiring Freeze,” issued by the President on January 23, 2017.

NON-PUBLIC
of the employees who applied for the new executive position and did not know the recommendation from the panel.

The FHFA Director acknowledged that, during his tenure, he spoke to a number of FHFA employees about the PMO Manager’s abilities, but not specifically about whether she should be made an executive. According to the Director, FHFA has a number of talented employees, including the PMO Manager. In his view, the PMO Manager had great experience handling FHFA’s relationship with Fannie Mae and Freddie Mac and standing up DOC. He noted that the PMO Manager was a trusted lieutenant to the former Deputy Director of DOC, prior to her retirement, and that this former Deputy Director had spoken highly about the PMO Manager.

**Interview of the PMO Manager**

The PMO Manager was interviewed on March 16, 2018. She explained that senior FHFA executives recommended and implemented the reorganization that moved the PMO to OCOO. The PMO Manager reported that she never heard that had discouraged employees from applying for the new executive position or that he favored any applicant. She denied that: told her that he had a preferred candidate for the position; she had been told in advance of the selection process that she would be selected for the new executive position; or she was the preferred candidate for it.

**OIG Refers to the Office of Special Counsel the Evidentiary Record of its Administrative Inquiry, and OSC Reaches a Decision on the Matter**

Congress established the OSC as an independent federal investigative agency, the primary mission of which is “to protect[] federal employees and applicants from prohibited personnel practices.” Therefore, we concluded the OSC was the appropriate entity to determine whether a prohibited personnel practice had occurred regarding the creation of or selection for the new executive position.

We spoke with OSC officials during the inquiry to alert them that we intended to refer the matter to the OSC at the conclusion of our fact finding and formally referred the matter to OSC on March 22, 2018. The OSC accepted our referral, and on April 2, 2018, we provided the OSC with a summary of the facts found during our administrative inquiry, including documents provided by FHFA. On April 5, 2018, we met with OSC attorneys. The fact finding for our administrative inquiry was complete at that time.

By letter dated May 3, 2018, the OSC reported to us that it had reached a preliminary determination that the record as it then existed did not support the allegations that the new executive position was improperly created, or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection by the panel.
On May 7, 2018, we provided OSC's written preliminary determination to FHFA and informed it that we had completed our administrative inquiry and planned to close the inquiry.

FHFA advised us that, as of November 8, 2018, the position remained vacant.

FHFA's Investigation of the PMO Manager's EEO Complaint

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA's EEO Services, alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of 1964 (as amended).6 Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims.

As part of her harassment claim the PMO Manager alleged that:

FHFA contracted with the USPS to gather facts and other information related to the PMO Manager's Title VII sexual harassment claim. The fact gathering, which began on June 14, 2018, included obtaining sworn statements, portions of audio recordings the PMO Manager chose to produce, and unofficial "transcripts" prepared by the PMO Manager.7

On July 3, 2018, while the fact gathering process was underway, the PMO Manager used her FHFA computer and email address to forward to her personal counsel an email exchange she had

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6 FHFA documents show that the PMO Manager raised in a conversation with (b)(6) in early April 2018, allegations that she had been subjected to discrimination and harassment based on her race and gender, which he sent onto FHFA’s Office of Minority and Women Inclusion (OMWI). FHFA documents also show that an OMWI official provided the PMO Manager with an EEO intake form and spoke with her about filing an informal EEO complaint, in April 2018.

7 The report by the USPS contract investigator did not contain findings of fact and conclusions of law, and did not address the allegations of misconduct by the FHFA Director that are the subject of this report.

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with the USPS contract investigator. She also blind-copied over 100 FHFA managers. The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not.

Several minutes later, the PMO Manager re-sent that email message to her counsel and, once again, blind-copied the same group of FHFA managers. Attached to that message was a file named “Watt Employment Charade Process” containing an audio recording of a portion of a conversation between the PMO Manager and the FHFA Director. Also attached were three purported transcripts of recorded conversations between the PMO Manager and the FHFA Director which the PMO Manager labeled, “Four Types Attraction,” “Tattoo,” and “Why Have You Rejected My Advances.”

Shortly thereafter, the PMO Manager sent a third message to the same group of FHFA managers, that read, “Sorry – this was sent in error – please disregard [sic].” The three purported transcripts and the recorded conversation were, once again, appended to the message.

**OIG’s Second Administrative Inquiry**

In the wake of the emails sent by the PMO Manager, we received three anonymous whistleblower complaints. They alleged that the FHFA Director abused his government position for personal gain by creating an unnecessary executive position for the PMO Manager. Any FHFA employee who seeks to access FHFA servers, whether through a government-provided computer, laptop, or personal computer, must first agree to terms and conditions in which the employee acknowledges no expectation of privacy.

The PMO Manager blind copied her first two messages to an FHFA email list, called “2018 Manager’s Conference,” which included more than 100 FHFA managers.

These were not actually transcripts, although they have the outward trappings of transcripts. Each of these three purported transcripts appeared to be produced by a certified transcription company because: each contained introductory pages labeled, “Transcript of Recorded Conversation;” each had a job number and the name of a court reporter who worked for the transcription company and provided the transcription; and each included a signed certification by the named court reporter, under penalty of perjury, that the transcript was a “full, true and correct transcription” of the recording....

We learned subsequently, from the USPS contract investigator’s report, that these three purported transcripts were created by the PMO Manager in 2018 from her recollections of 2016 conversations, using a “template” of a transcript from the transcription company. As we explain later in this report, the PMO Manager declined to provide either to the USPS contract investigator or to us the recordings of these conversations that these “transcripts” purported to document. Therefore, we treated each of these purported transcripts as the PMO Manager’s 2018 recollections of conversations that took place during 2016.
We opened a new administrative inquiry into these complaints and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). This inquiry focused solely on possible misconduct by the FHFA Director.

As we did before, we are referring to the OSC the allegations regarding improper creation of a new executive position, and pre-selection of the PMO Manager. We are also providing to OSC the evidentiary record we compiled in this second inquiry, given that the OSC has the statutory authority to determine whether FHFA senior executives engaged in any

We set forth, in Appendix A, a summary of the facts we found during this second inquiry concerning the creation of the new executive position within OCOO.

**OIG’s Efforts to Obtain Audio Recordings, Transcripts, and Other Documents**

FHFA provided us with the July 3, 2018, emails and attachments sent by the PMO Manager to her counsel and the FHFA managers. Thereafter, we sent requests for information to FHFA, and to the FHFA Director and the PMO Manager, through their respective counsel. FHFA provided responsive documents. The PMO Manager’s counsel sent us six recordings made by her client of conversations with the FHFA Director:

- one recording of a conversation that occurred purportedly on June 17, 2016;
- three recordings of portions of a conversation on November 11, 2016;
- a duplicate of one of the November 11, 2016, recordings; and
- one recording of a phone conversation that occurred on May 10, 2018.

After listening to those recordings, which appeared to stop and start during the conversations being recorded, we concluded that none was a complete record.

The PMO Manager’s counsel also produced:

- transcripts of the June 17, 2016, and the three November 11, 2016, recordings, identified above;
- a transcript of a conversation with the FHFA Director that occurred purportedly on March 13, 2018 (but no recording for that conversation); and

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This inquiry was conducted by career government attorneys who serve as senior executives in OIG.

The transcript of the conversation is dated June 17, 2016. However, the FHFA Director testified that the dinner meeting occurred on June 8, 2016, which was confirmed by the charge on his credit card statement. For purposes of this report, we refer to the recording of that meeting, and transcript, as June 17, 2016.
three unofficial “transcripts” prepared by the PMO Manager of other conversations with the FHFA Director that occurred purportedly in 2016, which were substantially similar to the purported transcripts sent by the PMO Manager on July 3, 2018 (but no recordings for those conversations).

We also received from the USPS contract investigator, through FHFA, a recording of a phone conversation that occurred on May 8, 2018, between the PMO Manager and the FHFA Director.

To ensure that all materials, including recordings, relevant to our administrative inquiry were produced by the FHFA Director and the PMO Manager, we issued separate administrative subpoenas to them on July 18, 2018.\(^\text{13}\) Counsel for the FHFA Director and for the PMO Manager accepted service of the subpoenas.\(^\text{14}\)

On July 27, 2018, the FHFA Director produced responsive materials. Counsel for the PMO Manager assured us that the PMO Manager would cooperate, and expressly authorized us to travel to the PMO Manager’s residence to retrieve from her copies of her audio recordings of conversations with the FHFA Director. That counsel asked for technological assistance to transfer all audio recordings to an encrypted flash drive and explained that such technological assistance was “the only impediment to the production” of the recordings. We agreed to provide that assistance.

From July 24, 2018, to the issuance of this report, the PMO Manager did not cooperate in our inquiry, although we advised her, both orally and in writing, that our inquiry focused solely on allegations of misconduct by the FHFA Director, for which she was only a witness. The PMO Manager refused to comply with our administrative subpoena, as well as an Order issued on October 5, 2018, by the United States District Court for the Eastern District of Virginia directing production of all materials sought in the subpoena.

We asked FHFA to provide to us the government cell phone issued to the PMO Manager because the PMO Manager said she used it to record conversations with the FHFA Director. The Agency asked the PMO Manager to return that phone. The USPS contract investigator’s report stated that the PMO Manager recounted that she had taken the government cell phone issued to her to a third party “data recovery provider who was able to recover data from [her] work phone.”

\(^\text{13}\) Neither the PMO Manager nor her counsel provided to us any recordings of conversations between January 1, 2016, and June 7, 2016; between June 9, 2016, and November 10, 2016; and between November 12, 2016, and May 9, 2018.

\(^\text{14}\) Upon the receipt of the subpoenas, neither counsel questioned the independence of this administrative inquiry, challenged the subpoena as issued for an improper purpose (such as harassment, intimidation, or retaliation), or claimed that we lacked authority to issue it.
RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR MELVIN L. WATT

NOVEMBER 26, 2018

EXHIBIT 1

Part 2 of 2
However, the PMO Manager declined to return this FHFA-issued government cell phone to FHFA.

The PMO Manager stated in her signed declaration to the USPS contract investigator, dated August 8, 2018, that “there were two regular weekly [senior staff] meetings that [she] attended with the Director...” and that she “recorded all conversations with [the FHFA Director] from 2016 to present,” Her statement led us to believe that she may have additional recordings of her conversations with the FHFA Director. To the best of our knowledge, the PMO Manager is the sole source for these additional recordings. Despite our best efforts, we have been unable to secure those recordings.

The PMO Manager appealed the decision by the U.S. District Court ordering compliance with our administrative subpoena. Because this could take months to resolve, and because the whistleblower allegations are time-sensitive, we determined that the exigencies of time required us to complete our administrative inquiry based on the information we had obtained and report our findings, without the materials in the PMO Manager’s possession.15

Review of Audio Recordings

Audio recordings provide the best evidence of statements made by the FHFA Director to the PMO Manager. As we have explained, we obtained, from counsel for the PMO Manager and from the USPS contract investigator, recordings made by the PMO Manager of portions of four conversations with the FHFA Director, two of which occurred after the executive position was created and the PMO Manager was selected by the panel to fill it. We caused transcripts to be made for each of these recordings.16 Two of these recordings, from conversations between the PMO Manager and the Director in June and November 2016, are relevant to this inquiry.

15 For those reasons, we reached an agreement with the PMO Manager, through her counsel, to dismiss the subpoena enforcement action.

16 The PMO Manager declined to produce recordings for three conversations she had with the FHFA Director during 2016 for which she created three unofficial “transcripts,” one version of which was attached to her July 3, 2018, email. The report of the USPS contract investigator recounted what the PMO Manager told the investigator: the PMO Manager used a template from a transcription service company to create unofficial “transcripts” of her recollections of these three 2016 conversations; at her request, a third-party data recovery service provider recovered data from a government cell phone issued to her; after the third-party data recovery provider recovered data from that government issued cell phone, the PMO Manager listened to recordings that she thought had been erased; she compared the recordings to her unofficial “transcripts” created from her memory; she found that the recordings were “consistent with minor deviations”; she “modified” her unofficial “transcripts” to “match the recordings”; she provided those modified unofficial “transcripts” to the contract investigator; and she did not make the recordings available to that investigator.
The June 17, 2016, Recording:

The FHFA Director confirmed that he and the PMO Manager met for dinner at the Rosa Mexicano restaurant in June 2016 and that this dinner was one of two meals that they shared off-site and alone. The portion of the recording produced to us begins in the middle of a conversation that purportedly occurred in June 2016 in a restaurant, with the PMO Manager asking the FHFA Director when the position, which is an executive position, would become vacant. The FHFA Director responded, “I don’t know what the timing is. [The position] wouldn’t be surprised if it was sooner rather than later.” At a subsequent point in the recording, the Director suggested that the Chief of Staff position, an executive position, would become vacant after his current Chief of Staff moved to a different position.

The Director asked the PMO Manager: “What do you want, not just limited to the things I’ve laid out, what do you want to do?” She responded: “I think I’ve definitely been looking for kind of, you know, an expansion in role, you know. The chief of staff is ideal, but that’d be up to you, I guess.” The FHFA Director explained that his term was limited to five years, which would be “a downside to having the chief of staff position” because “it doesn’t necessarily carry over” and is “a discretionary position.” The PMO Manager replied, “I don’t think I’m going to stay at FHFA for the rest of my life” and “I think I can find other places.” The FHFA Director concurred: “And being chief of staff to me would position you for a lot of places.”

The November 11, 2016, Recording:

The FHFA Director confirmed that it is his voice on this recording of a conversation with the PMO Manager and that this conversation took place in his apartment in November 2016. (Text messages between the FHFA Director and the PMO Manager sent and received from his private cell phone during the period November 4-11, 2016, show that the Director first invited the PMO Manager to his apartment over the weekend of November 12-13, 2016, and that she agreed to meet with him on November 11, a federal holiday.)

Again, the recording provided by the PMO Manager’s counsel begins in the middle of a conversation in which the FHFA Director appears to have raised the opportunity for the PMO

17 In these texts, the FHFA Director sought to have the PMO Manager visit him for a longer period of time than she was willing. The PMO Manager texted, “I have a few hours tomorrow [b]etween 1 and 3,” to which the Director responds, “Do u have more, less or no time on Sat or Sun instead? How do you calculate that the time between 1 & 3 is a ‘few’ hours?” The PMO Manager replies, “Lol It’s a lot for me.” The Director then texted, “Sat or Sun or is my option only the ‘few’ hours between 1 & 3 tom[orrow]? The PMO Manager replied, “Yes Friday.” On her way to his apartment on November 11, 2016, the PMO Manager texted, “About 30 mins out,” and the Director responds, “The ‘few’ gets shorter.”
Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. The FHFA Director characterized the former as “our original plan” which was “to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” The Director then explained to the PMO Manager that this option “wouldn’t have been a good idea anyway. Because the chief of staff is a position that basically whether you are career or whether you are schedule C, it’s generally going to change when the new director comes in.” He explained further that, in the event his successor chose a different chief of staff, she could “bump back” to her current position or to another position in the Agency equivalent to the one she left.

The FHFA Director continued that he was “not sure” that In the event decided to return to his position he could “take his position back” which was the reason that FHFA could not fill that position, even though the Director acknowledged that the PMO Manager was “doing a lot of the responsibilities that go with” that position.

The PMO Manager expressed her appreciation to the FHFA Director for “putting some thought into it and sharing that with me,” and stated that “I think I would be qualified for either position.” She then said, “I just need to make sure that I feel clear and confident that this is just going to be based on merit and fitness for the position, and that there’s nothing else.”

The FHFA Director replied that he “intended to address that first.” He then told the PMO Manager he thought she was “gorgeous” but he did not “make agency decisions based on who’s gorgeous and who’s not.” He maintained that he had “gone out of [his] way to get this—get our friendship. . . . or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it.” He reported to the PMO Manager that “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That is true.”

The Director acknowledged that he had “tried to accept what you told me, the first time you told me. And that’s fine. I accept it. I know I can draw the line.” After repeating four times that he could “draw the line,” the FHFA Director added, “[m]uch to my disappointment…”

The FHFA Director then asked the PMO Manager, “How are you feeling? What are you feeling?” and she responded, “I think I’ve definitely had concerns with—well definitely with coming here.” Even though he professed to know where to draw the line, he again remarked that his apartment was the “safest place to do this, to have this conversation” and that “it would be the safest place to—if it was going beyond this conversation.”

13
NON-PUBLIC
Interviews and Sworn Testimony

Between July 9, 2018, and October 18, 2018, we interviewed 20 witnesses—some on multiple occasions. Counsel for the PMO Manager did not respond to two written requests by us for an interview with the PMO Manager. A summary of two of these interviews follows.

Interview of the FHFA Director

On October 11, 2018, we interviewed the FHFA Director under oath, using a court reporter to transcribe the interview. He confirmed that he met the PMO Manager alone in his apartment in November 2016, and that it is his voice on the recording of a portion of his conversation with the PMO Manager, provided to us by the PMO Manager’s counsel.

He testified that he is the only executive in FHFA authorized to approve the creation of a new executive position, and that FHFA remains “top heavy” with executives, despite his approval of an executive buy-out which the Agency conducted in 2014. The FHFA Director stated that he recognized that circumstances might require him to approve a request to create a new executive position. However, he would do so only if such a request was supported by a “compelling case” based upon “substantial documentation and support.” The Director established this standard in a February 10, 2017, memorandum he sent to FHFA executives following the issuance of the “Presidential Memorandum Regarding the Hiring Freeze” by the White House on January 23, 2017.

The FHFA Director also testified that he has been the PMO Manager’s friend and mentor since at least 2016, and that he met her alone outside of the FHFA workplace on four occasions in 2016: at a restaurant; at a night club; in Rock Creek Park, and at his apartment in Washington, D.C. Although he testified that he has mentored a great many individuals, he could not recall a female mentee other than the PMO Manager whom he invited to his private residence in DC.

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18 The FHFA Director was represented by counsel at this interview.
19 In 2014, the Director approved a buyout of 12 FHFA executives at a cost of about $1.45 million.
20 The FHFA Director testified that he became the PMO Manager’s mentor when she started coming to him for advice after his first meeting with her to discuss the PMO in 2015.
21 The FHFA Director also recalled meeting her at a restaurant in 2015.
22 He recalled that a FHFA female IT technician came to his apartment “to set up [his] home computing capabilities with the office” but that he was not in “an ongoing mentoring relationship” with her. He stated that this technician had since retired.
The FHFA Director stated that the PMO Manager made it clear to him on multiple occasions that she wanted to be an executive in the agency. He added that “it was general knowledge that [the PMO Manager] was one of the people in the agency who had—who had good skills and should be considered if an executive level position ever got created.”

He testified that he assumed the PMO Manager would apply for the new executive position in OCOO when he approved the creation of it. He also confirmed that one of the options he considered for the PMO Manager was the “original plan” to bring her into the Chief of Staff’s office that “would have put [her] in line” to become chief of staff. He did not dispute that he discussed the chief of staff and COO positions with the PMO Manager, but thought he never discussed with her the impediments to her if she competed for the COO position. He explained those impediments to us: if the PMO Manager, who was a grade below an executive, “was competing for the [COO’s] position, there would probably be multiple existing executives who would want that position... And so no way a level 15 probably was going to get that job....”

Interview of [D[6];D[7];(C)

We interviewed [D[6];D[7];(C) on October 10, 2018, under oath and before a court reporter who transcribed the interview. [D[6];D[7];(C) testified that he was “transparent” with the PMO Manager and the OQA Manager, and discussed options by which to manage the PMO and OQA, including an option to create a new executive position and an option to place the PMO under an existing executive.

[D[6];D[7];(C) recalled that the PMO Manager reacted negatively to his consideration of an option other than the creation of a new executive position and became upset. Further, she advised that she was “going to talk to the Director about that.” [D[6];D[7];(C) recalled that he warned the Director about this development and that the Director responded that the PMO Manager had already spoken with him and that he had told the PMO Manager that the decision was up to [D[6];D[7];(C)

Findings

As discussed, we recognize the likelihood that the PMO Manager has additional recordings of her conversations with the FHFA Director which the PMO Manager has not produced in response to our information request, subpoena, and a Court Order. To the best of our knowledge,

23 [D[6];D[7];(C) was represented by counsel at this interview.

24 When asked whether [D[6];D[7];(C) reported the PMO Manager would complain to the FHFA Director if [D[6];D[7];(C) did not recommend creation of a new position, the FHFA Director answered: “He definitely didn’t tell me that because I would have remembered that.” He did not recall whether the PMO Manager came to see him after she thought [D[6];D[7];(C) might not recommend creation of such a position.
the PMO Manager is the sole source for these additional recordings. However, based on our review of the identified recordings, documents, and information learned during our interviews, we have determined that we have a sufficient basis on which to reach two findings of misconduct by the FHFA Director.

1. The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

The Standards establish a code of conduct applicable to all officials and employees of the federal executive agencies. At all times relevant to our inquiry, the FHFA Director was subject to the Standards.

Section 702 of the Standards prohibits an officer or employee from using any authority associated with his federal office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise.

For the reasons set forth, below, we find that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in some sort of relationship with him that went beyond their existing "friendship" and/or mentorship by suggesting or implying he would use his official authority to assist her in attaining an executive position within FHFA.

The recording of the Director’s conversation with the PMO Manager on November 11, 2016, establishes that the Director, not the PMO Manager, went “out of [his] way to get this—get our friendship...—or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it,” a statement confirmed by text messages from the Director inviting the PMO Manager to his apartment. The PMO Manager made clear in the recording that this off-site meeting was not her idea: “I think I’ve definitely had concerns with -- well, definitely with coming here.”

The Director explained his personal interest in the PMO Manager: “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That’s true.” He went on to say that he had “tried to accept what you told me, the first time you told me,” and was “comfortable with drawing the line where you told me I needed to draw it. So I’ve drawn that line [ ] much to my disappointment.” He reiterated that his apartment was the “safest place to have this conversation” and that “it would be the safest place to—if it was going beyond this conversation.”

The Director continued his discussion of the two executive position options for the PMO Manager, that of Chief of Staff and COO. He had also raised the option of the Chief of Staff position in the recorded conversation with the PMO Manager during the Rosa Mexicano dinner.

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25 5 CFR § 2635, et seq.
in June 2016. The PMO Manager responded that she thought she would “be qualified for either position,” and asked the FHFA Director to assure her that any promotion “is just going to be based on merit and fitness for the position, and that there’s nothing else.” The FHFA Director responded that he thought she was “gorgeous” but didn’t “make agency decisions based on who’s gorgeous and who’s not.” He asserted that his discussion with the PMO Manager about two executive positions “has nothing to do with either your beauty or my feelings. But that doesn’t eliminate the feelings or the beauty.”

The Director sought to get the PMO Manager to agree with his perspective about the need to meet, alone, at his apartment:

But you understand I think you finally came -- you finally came to the conclusion that I did, that this is the safest place to do this, to have this conversation. It would be the safest place to -- if it were going beyond this conversation. But I think you were concerned that I was luring you here for other reasons. I wasn't concerned about that.

He added that his apartment was “just a safer place to have a conversation” for the PMO Manager because she would otherwise have exposure “sitting in a restaurant, going to Blues Alley, anywhere out in the public” because he was “so well known.”

During his sworn interview, the FHFA Director sought to cast these remarks in an innocent light. According to the Director, he did not have a romantic attraction to the PMO Manager. He testified that the PMO Manager “started to make periodic visits to [his] office, during which [they] would discuss work and non-work topics. The increased frequency of those visits” and the “odd times at which the visits started to occur raised [his] suspicions that [the PMO Manager] could be developing an attraction to [him] that would be inappropriate for either an employer/employee relationship or a friendship or a mentor/mentee relationship.” For that reason, he explained that he “requested an off-site meeting with [the PMO Manager] after work hours for the specific purpose of addressing and hopefully eliminating [his] suspicions about [her] intentions” and this meeting occurred at Rosa Mexicano in June 2016.

The FHFA Director volunteered that, while en route to Rosa Mexicano, he mentioned to the PMO Manager that there was an attraction between them that needed to be explored so that he could ascertain the PMO Manager’s reaction. She “denied that she had any attraction of the kind I had suspected.” He maintained that he “confirmed that [his] intention was to make sure there was no confusion about whether there was anything other than ‘an attraction of friendship’.” The FHFA Director testified that it was that “clarification” from the PMO Manager “that made it possible for [them] to have [ ] the walk in Rock Creek Park or meet at a performance venue or even have her come to my house to talk about work,” all of which he considered appropriate.
With that background, the FHFA Director explained that his remark on the November 11, 2016, recording that he was “guilty of having an attraction” to the PMO Manager meant only that he had “a friendship attraction” as he did with “all [his] mentees.” The Director opined that there was nothing in the recording that was inconsistent with that meaning. He asserted that he has “told a number of [his] mentees that [he] think[s] they’re gorgeous” and that he has a “friendship attraction” to them.” The Director acknowledged that no other female mentees had visited his D.C. apartment. He recalled that an FHFA female IT employee, who has since retired, had visited his apartment “to set up [his] home computing capabilities with the office” but that he was not in “an ongoing mentoring relationship” with her.

The Director also maintained that his reference to line-drawing concerned “[the] line between making decisions based on friendship and making decisions based on my responsibilities as Director” of FHFA. The FHFA Director dismissed his reference to his “disappointment” about drawing the line to be “a joke” and commented that both he and the PMO Manager laughed because “she knew [he] was joking” about whether he had a physical or sexual attraction to her. The Director also expressed his belief that the PMO Manager “knows in her heart that there was no effort [by him] to pursue any kind of romantic relationship with her.”

We are not persuaded by the explanations offered by the FHFA Director. Contrary to his testimony, the recording of the November 11, 2016, conversation reveals that the PMO Manager drew the line in question, not the Director. In the recording the Director is heard to say, “I tried to accept what you told me, the first time you told me” and that “I’m comfortable with drawing the line where you told me I needed to draw it.” (emphasis added) As the FHFA Director’s recorded words made clear, the line in question was drawn by the PMO Manager in an effort to place limits on his conduct toward her, which the Director “tried to accept.” Thus, we reject the Director’s explanation for this exchange. We are not persuaded by the Director’s assertion that the PMO Manager considered his statement that he would observe the line “much to [his] disappointment” to be nothing more than a “joke. About a minute after the Director told the PMO Manager that he could “draw[] the line where you told me I needed to draw it,” the PMO Manager said, “I think I’ve definitely had concerns with – well with definitely coming here.”

The Director advised the PMO Manager, in the November 11, 2016, recording, and acknowledged, in both his February 2018 interview and October 2018 testimony to us, that he had sole authority to select candidates to fill executive positions. Had the FHFA Director sought solely to discuss potential advancement opportunities with a mentee, as he maintained, those discussions could, and would, have occurred during business hours in FHFA’s offices.

Moreover, we find the FHFA Director’s alternative explanation is not credible. He asserts that meetings outside FHFA’s office with the PMO Manager were necessary to avoid unjustified suspicions of an inappropriate relationship. But he also maintains that he was concerned that the PMO Manager might have been interested in an inappropriate relationship, and he sought to
assure himself that she was not. He acknowledges that he never met another female mentee at
his apartment. Given the Director’s stated concerns about the interests of the PMO Manager, the
Director should have been especially scrupulous about conducting meetings with the PMO
Manager in FHFA’s offices. Instead, by his own admission, he treated the PMO Manager
differently from other female mentees. A reasonable conclusion is that he did so because he was
seeking an inappropriate relationship with her.

We find it more likely than not that the FHFA Director sought to coerce or induce the PMO
Manager to engage in some sort of relationship with him that went beyond their existing
“friendship” and/or mentorship by inviting her to his apartment (which he characterized as the
“safest place [ ] to have this conversation, if it were going beyond this conversation”), and
reporting that he was “guilty of having an attraction” to her, by suggesting or implying he would
use his official authority to assist her in obtaining an executive position at FHFA which he knew
that she sought.26

We find that there are no circumstances under which it is appropriate for the head of FHFA to
induce a subordinate female employee to meet with him alone, in his apartment, for a
conversation in which he professes his attraction for that employee and holds out opportunities
for the employee to serve in specific executive positions over which he exercises total control.

For those reasons, we find that the FHFA Director violated Section 702 when he attempted to
coerce or induce the PMO Manager to engage in a relationship with him that went beyond their
existing “friendship” and/or mentorship by suggesting or implying he would use his official
authority to assist her in attaining an executive position with FHFA.

2. The FHFA Director Was Not Candid

Every agency employee, including the head of an agency, providing information in an OIG
inquiry must be fully forthcoming and candid as to all facts and information relevant to the
inquiry, even if that employee is not specifically asked about particular facts or information.
Thus, an employee must disclose those things that, in the circumstances, are needed to make the
employee’s statement complete and accurate.27

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26 We do not credit the Director’s statement that the possible executive positions he was discussing had “nothing to
do with either [her] beauty or [his] feelings” or attraction to her. Were that the case, these discussions would have
occurred during office hours within FHFA.

27 Ludlum v. Dept. of Justice, 278 F. 3d 1280, 1284 (Fed Cir. 2002). See Ludlum v. Department of Justice, 87
M.S.P.R. 56, paragraph 13 (2000), aff’d., 278 F.3d 1280 (Fed. Cir. 2002) (“lack of candor exists when an applicant
breaches the duty “to be fully forthcoming as to all facts and information relevant to a matter before the FCC,
whether or not such information is particularly elicited.””). Additionally, FHFA employees are obliged to provide
At the outset of the interview with the FHFA Director on February 15, 2018, an OIG Investigative Counsel and an OIG Senior Special Agent informed him that they were conducting an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the FHFA Director was not candid during his February 15, 2018, interview for the reasons set forth below.

The FHFA Director stated that he was the only individual in the Agency who 1) could approve the creation of an executive position in FHFA and 2) could approve the selection of an individual to fill that position. In these circumstances, the existence of his personal relationship – whether a friendship, mentorship, or “whatever it is” – with the PMO Manager was material to an inquiry examining whether an executive position had been properly created and whether the PMO Manager had been afforded preferential treatment. The FHFA Director, however, failed to disclose during his February 2018 interview what he disclosed during his October 2018 sworn testimony: that he considered himself to be the PMO Manager’s friend and mentor, at least since 2016. We now know, from his recorded statements in November 2016 to the PMO Manager that he: was “guilty of having an attraction” to her; and it was “much to [his] disappointment” that he had to “draw[ ] the line” where she told him it needed to be drawn.

There can be no doubt that the information that the Director failed to disclose during his February 2018 interview was material to the first investigation. The focus of that inquiry was whether the executive position had been improperly created and whether the PMO Manager had been preselected for it. Therefore, it was highly relevant whether the Director had any sort of relationship with the PMO Manager. We find that the FHFA Director’s omission of material information regarding the nature and tenor of his relationship with the PMO Manager during his February 15, 2018, interview to constitute a lack of candor.

We also find that the Director was not candid with us when he failed to disclose that he had a plan, dating back to at least June 2016, under which the PMO Manager could advance into FHFA’s executive ranks, as the June 17, 2016, and November 11, 2016, recordings show. In the recorded conversations of June 17, 2016, the Director appears to have raised the opportunity for the PMO Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. In the recorded conversation of November 11, 2016, the Director explained “our original plan was to – at least one of the options that we were looking at was to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” After recounting the reasons that this plan “wouldn’t have been a good idea anyway,” the Director described the scenario under which another executive position, COO, might become vacant, creating a vacancy for the PMO

OIG “accurate and complete information when requested” under a Memorandum of Understanding between FHFA and OIG in effect at all times relevant to both of our administrative inquiries.
Manager. The Director’s “plan” for the PMO Manager to obtain an executive position was material, particularly when the Director retained sole authority to create executive positions and appoint individuals to them. We find the Director’s omission of material information during his February 15, 2018, interview regarding his “plan” for the PMO Manager to obtain an executive position to constitute a lack of candor.

Conclusion

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the OGE and to our congressional oversight committees. We have referred to the OSC the allegations about (6)(C) for its review and determination.
RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR MELVIN L. WATT

NOVEMBER 26, 2018

EXHIBIT 2
Mr. DePasquale:

Thank you for the delivery yesterday afternoon of the Draft OIG Report of Investigation into allegations of misconduct against me. I respectfully make the following requests related to this matter:

1) The normal protocols we have adhered to between our office and the OIG related to draft reports, at least until the protocols were adjusted by the OIG to expedite finishing reports so they could be included in the OIG’s most recent Semi-Annual Report to Congress, provided for 10 days for our office to provide “technical comments” to ensure that factual errors were called to the OIG’s attention, followed by an additional 5 days for our response once our technical comments were considered and the draft was finalized. After reviewing the Draft Report delivered yesterday, there are several factual errors that I believe should be corrected before the Draft Report becomes a Final Report. I request that we follow our previously established protocols and that I be provided 10 days to provide technical comments to call these factual errors to your attention, followed by 5 days to provide my response from the time the Draft becomes Final.

2) Regardless of your disposition of the above request, I request that the time for me to provide my response be extended to no earlier than December 6, 2018 in light of previously scheduled Thanksgiving holiday travel plans and other pressing matters, both business (policy, transition, records retention, etc.) and personal (sale of DC residence, preparations to move, etc.), that are demanding my attention during this time frame. The Draft Report, of course, involves substantial reputational issues and neither the preparation of technical comments nor my response can be delegated.

Please advise me of your disposition of the above requests as soon as possible to enable me to plan appropriately.

Thank you in advance for your consideration.

Mel Watt
From: Ray Fay  
Sent: Saturday, November 17, 2018 1:53 PM  
To: DePasquale, Leonard [b](6),(b)(7)(C)  
Cc: Wertheimer, Laura (OIG); Watt, Mel  
Subject: RE: Two Requests

Mr. DePasquale,

This follows up on Mr. Watt’s request to you below. The draft report states (at 4): “Appendix A to this report is a summary of the facts we compiled during our administrative inquiry, and that summary has been provided to the OSC.” See id. at 9 (“We set forth, in Appendix A, a summary of the facts we found during this second inquiry...”).

No Appendix A has been provided. Please furnish it to Mr. Watt and me. The incompleteness of the draft report reinforces Mr. Watt’s request for additional time to provide his comments, on top of the independent merits of that request.

I am available this weekend to retrieve the missing document from you.

Thank you.

Ray Fay

Raymond C. Fay  
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202 263 4604 t  
202 261 3508 f  
rfay@faylawdc.com

From: Watt, Mel [mailto:wattmebj@fhfa.gov]  
Sent: Friday, November 16, 2018 11:34 AM  
To: DePasquale, Leonard [b](6),(b)(7)(C)  
Cc: Wertheimer, Laura (OIG)[b](6),(b)(7)(C) Ray Fay <rfay@faylawdc.com>  
Subject: FW: Two Requests

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Thank you for the delivery yesterday afternoon of the Draft OIG Report of Investigation into allegations of misconduct against me. I respectfully make the following requests related to this matter:

1) The normal protocols we have adhered to between our office and the OIG related to draft reports, at least until the protocols were adjusted by the OIG to expedite finishing reports so they could be included in the OIG’s most recent Semi-Annual Report to Congress, provided for 10 days for our office to provide “technical comments” to ensure that factual errors were called to the OIG’s attention, followed by an additional 5 days for our response once our technical comments were considered and the draft was finalized. After reviewing the Draft Report delivered yesterday, there are several factual errors that I believe should be corrected before the Draft Report becomes a Final Report. I request that we follow our previously established protocols and that I be provided 10 days to provide technical comments to call these factual errors to your attention, followed by 5 days to provide my response from the time the Draft becomes Final.

2) Regardless of your disposition of the above request, I request that the time for me to provide my response be extended to no earlier than December 6, 2018 in light of previously scheduled Thanksgiving holiday travel plans
and other pressing matters, both business (policy, transition, records retention, etc.) and personal (sale of DC residence, preparations to move, etc.), that are demanding my attention during this time frame. The Draft Report, of course, involves substantial reputational issues and neither the preparation of technical comments nor my response can be delegated.

Please advise me of your disposition of the above requests as soon as possible to enable me to plan appropriately.

Thank you in advance for your consideration.

Mel Watt

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From: DePasquale, Leonard
Sent: Monday, November 19, 2018 12:20 PM
To: Ray Fay
Subject: RE: Two Requests

Mr. Fay:

This note responds to Director Watt’s request of November 16 for an extension of time to respond to the draft report of FHFA-OIG’s administrative inquiry into allegations of misconduct against him and your request of November 17 for a draft of Appendix A.

Director Watt’s request incorrectly asserts that FHFA-OIG is not following “normal protocols” with FHFA for this draft report. The “normal” protocols were put into place for audits, evaluations and compliance reviews, and we have never applied them to roll-up reports, management alerts, or reports of administrative inquiries. As we explain below, these latter three categories of reports are fundamentally different from audits, evaluations and compliance reviews. For that reason, the “normal protocol” of 10 business days for “technical comments” followed by an additional 5 days for a management response has never applied to roll-ups, management alerts and reports of administrative inquiry.

A roll-up report, of which FHFA-OIG has issued two, summarizes FHFA-OIG’s conclusions from a number of previously issued audits, evaluations and compliance reviews for which FHFA had 15 business days to provide technical comments and responses. For example, in December 2016, FHFA-OIG issued a roll-up report of 12 prior assessments of critical elements of DER’s supervision program for the Enterprises and identified four recurring themes from the prior fact finding and recommendations. Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA’s Supervision Program for the Enterprises (OIG-2017-003, December 15, 2016). So too, the roll-up report issued in September 2018, FHFA’s Housing Finance Examiner Commissioning Program: $7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners (COM-2018-0067, September 6, 2018), explained the shortcomings and weaknesses of FHFA’s Housing Finance Commissioning Program, based on the facts and findings from four previously issued reports. For each roll-up report, FHFA was provided 10 days to submit its management response.

Management alerts are issued to inform the FHFA Director of ongoing action (or inaction) in FHFA’s operations and programs that, in the view of FHFA-OIG, require the Director’s immediate attention. Providing FHFA with a technical comment period of 10 business days on the “facts” section of a management alert, followed by a response period of 5 business days, would serve only to delay issuance of a management alert for which immediate action is sought. During Director Watt’s tenure, FHFA-OIG has issued several management alerts and has provided FHFA with 10 business days in which to submit both its technical comments, if any, and management response. See, e.g., Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce (OIG-2018-004, September 6, 2018); Fannie Mae Dallas Regional Headquarters Project (OIG-2017-002, December 15, 2016); Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae’s Headquarters Consolidation and Relocation Project (COM-2016-004, June 16, 2016).

For those reasons, Director Watt’s assertion that FHFA-OIG “adjusted” the “normal protocols” to expedite completion of reports so they could be included in its most recent Semi-Annual Report to Congress is
inaccurate. During that semi-annual period, FHFA-OIG drafted one roll-up and one management alert, and with respect to each, provided FHFA with the customary 10 business days for technical comment and/or management response.

The Inspector General Act of 1978, as amended, requires every federal Office of Inspector, including FHFA-OIG, to timely report misconduct by senior agency officials. Reports of administrative inquiries or administrative reviews typically are issued to set forth FHFA-OIG’s fact-finding and conclusions into allegations of misconduct by an individual or individuals. Where the facts found are drawn, in whole or in large measure, from FHFA records, FHFA-OIG has issued its report of administrative inquiry without providing FHFA with any opportunity to provide technical comment and has instead subsequently appended to the already-issued report any management response later submitted by FHFA. See, e.g., Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise (OIG-2017-004, March 23, 2017); Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation (OIG-2017-001, December 6, 2017).

Where, as here, the facts found are drawn from a limited record, FHFA-OIG has provided FHFA with 5 business days in which to submit its technical comments and response. See, e.g., Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise (OIG-2018-001, July 26, 2018). As the draft report provided to Director Watt on Thursday, November 15, plainly acknowledges, the record on which FHFA-OIG made its findings was limited, and Director Watt was provided with the opportunity to supplement that record during his deposition. Based upon this record, FHFA-OIG determined that the information obtained during its administrative inquiry provided a sufficient basis on which to reach two findings of misconduct. The facts found in its draft report are drawn largely from agency records, including two recordings in FHFA’s possession since August 2018 and the report of the contract investigator, provided to FHFA on August 13, 2018; a memorandum of Director Watt’s interview of February 15, 2018, and a transcript of Director Watt’s sworn testimony of October 11, 2018, where he was represented by counsel; and a charge card record produced by Director Watt through you as his counsel. Given that the facts found in this draft report are drawn from a limited record, FHFA-OIG will follow its practice and provide Director Watt 5 business days in which to submit his technical comments and response. (We note that these 5 business days equate to 10 calendar days).

Director Watt noted that he identified “several factual errors” in this draft report for which correction is warranted before issuance of the final report. FHFA-OIG has developed and implemented rigorous internal controls to ensure the accuracy of its reports. The draft report provided to Director Watt on November 15 has record support for each factual statement, all of which have been checked for accuracy by lawyers in FHFA-OIG’s Office of Counsel. Notwithstanding these controls, FHFA-OIG recognizes that a potential for error exists. As Director Watt reported that he had already identified “several factual errors” in the draft report, kindly provide us with a list of those factual errors by close of business, November 20. Expedited identification of errors will allow us to revise the current draft, as necessary, and provide you with a revised draft no later than 5 pm on November 23.

With regard to Appendix A, that Appendix was prepared for OSC, as the current draft makes clear, for its use in its ongoing review. Because that review is not complete, we have determined not to include Appendix A as part of this report. Consequently, Appendix A will be delivered solely to the OSC, which follows the practice that we used for the first administrative inquiry. The draft report will be revised to remove all references to Appendix A. Because the information in Appendix A is provided to OSC for its ongoing review, we will not provide Appendix A to you, as counsel for Director Watt, or to any stakeholders.
For the reasons set forth above, FHFA-OIG will continue to adhere to its practice of providing 5 business days to FHFA for technical comment and a response. Should Director Watt wish to submit a management response after the November 26 deadline, FHFA-OIG shall forward that response to all stakeholders who receive the unredacted report.

Sincerely,

Len

Leonard J. DePasquale
Chief Counsel
FHFA-OIG

From: Ray Fay [mailto:rfay@faylawdc.com]
Sent: Saturday, November 17, 2018 1:53 PM
To: DePasquale, Leonard
Cc: Wertheimer, Laura

Subject: RE: Two Requests

Mr. DePasquale,

This follows up on Mr. Watt's request to you below. The draft report states (at 4): "Appendix A to this report is a summary of the facts we compiled during our administrative inquiry, and that summary has been provided to the OSC." See id. At 9 ("We set forth, in Appendix A, a summary of the facts we found during this second inquiry... nat.

No Appendix A has been provided. Please furnish it to Mr. Watt and me. The incompleteness of the draft report reinforces Mr. Watt's request for additional time to provide his comments, on top of the independent merits of that request.

I am available this weekend to retrieve the missing document from you.

Thank you.

Ray Fay

Raymond C. Fay
FAY LAW GROUP PLLC
1250 Connecticut Avenue, NW Suite 700
Washington, DC 20036
202 263 4604
t
202 261 3508
rfay@faylawdc.com

From: Watt, Mel [mailto:wattmebj@fhfa.gov]
Sent: Friday, November 16, 2018 11:34 AM
To: DePasquale, Leonard
Cc: Wertheimer, Laura

Subject: FW: Two Requests
Mr. DePasquale:

Thank you for the delivery yesterday afternoon of the Draft OIG Report of Investigation into allegations of misconduct against me. I respectfully make the following requests related to this matter:

1) The normal protocols we have adhered to between our office and the OIG related to draft reports, at least until the protocols were adjusted by the OIG to expedite finishing reports so they could be included in the OIG’s most recent Semi-Annual Report to Congress, provided for 10 days for our office to provide “technical comments” to ensure that factual errors were called to the OIG’s attention, followed by an additional 5 days for our response once our technical comments were considered and the draft was finalized. After reviewing the Draft Report delivered yesterday, there are several factual errors that I believe should be corrected before the Draft Report becomes a Final Report. I request that we follow our previously established protocols and that I be provided 10 days to provide technical comments to call these factual errors to your attention, followed by 5 days to provide my response from the time the Draft becomes Final.

2) Regardless of your disposition of the above request, I request that the time for me to provide my response be extended to no earlier than December 6, 2018 in light of previously scheduled Thanksgiving holiday travel plans and other pressing matters, both business (policy, transition, records retention, etc.) and personal (sale of DC residence, preparations to move, etc.), that are demanding my attention during this time frame. The Draft Report, of course, involves substantial reputational issues and neither the preparation of technical comments nor my response can be delegated.

Please advise me of your disposition of the above requests as soon as possible to enable me to plan appropriately.

Thank you in advance for your consideration.

Mel Watt
RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018

EXHIBIT 3
MEMORANDUM IN SUPPORT OF PETITION OF THE UNITED STATES TO ENFORCE SUBPOENA ISSUED BY THE INSPECTOR GENERAL OF THE FEDERAL HOUSING FINANCE AGENCY

INTRODUCTION


MEMORANDUM IN SUPPORT OF PETITION OF THE UNITED STATES TO ENFORCE SUBPOENA ISSUED BY THE INSPECTOR GENERAL OF THE FEDERAL HOUSING FINANCE AGENCY

INTRODUCTION

The Federal Housing Finance Agency ("FHFA") Office of Inspector General ("OIG") is investigating allegations of misconduct involving FHFA Director Melvin L. Watt. As part of that investigation, FHFA-OIG served Ms. Simone Grimes, an FHFA employee (Respondent), with a subpoena to obtain copies of audio recordings made by the Respondent, as well as other documents and material that are in her possession ("Subpoena"). See Exhibit 1.

The audio recordings of the communications, as well as the associated records in the Respondents possession may be the only such recordings that exist, and are essential to FHFA-OIG's ability to conduct its investigation.

Respondent has not produced the information required by the Subpoena. Respondent, through her then-counsel, previously provided FHFA-OIG certain information – partial audio recordings and partial transcripts – from a parallel administrative proceeding. However, those
recordings and transcripts do not appear to be complete, and Respondent has additional audio recordings in her possession.

**BACKGROUND**

FHFA-OIG is an independent office within FHFA charged with, *inter alia*, investigating waste, fraud and abuse relating to FHFA's programs and operations.

FHFA-OIG is conducting an investigation into allegations that FHFA's Director (Director) may have engaged in misconduct. FHFA-OIG identified the Respondent as a party who is likely the sole source of certain information necessary for OIG to complete its investigation.

On July 18, 2018, FHFA-OIG issued the Subpoena to the Respondent to obtain complete, unedited audio and other records of conversations between Respondent and the Director as well as conversations between Respondent and anyone else concerning her employment with FHFA; any and all transcripts of those audio and/or video recordings; any and all records of communication by and between the Respondent and the Director made from January 1, 2014, through July 17, 2018, including, but not limited to, emails and their attachments, text messages, telephone calls, voice mail, and other media.

Respondent, through her counsel at the time, confirmed receipt of service of the Subpoena on July 19, 2018. See Exhibit 2. On July 20, 2018, Respondent’s then-counsel (“Counsel”) stated that the Respondent had already provided information to the FHFA-OIG prior to the issuance of the Subpoena, asserted that the Respondent would provide additional information responsive to the subpoena on a rolling basis, and requested an extension to respond to the subpoena through August 17, 2018. As support of her request, Respondent’s Counsel informed FHFA-OIG that her client would be away, she needed time to locate and assemble the
requested information and recover deleted voicemails, and last, she requested technological assistance to transfer audio recordings. FHFA-OIG offered technical assistance to download the full, unedited audio files and any other computer-hosted materials in Respondent's care, custody, or control, and sought a mutually-agreeable schedule for production of the remaining materials.

On July 24, 2018, Counsel authorized FHFA-OIG to communicate directly with Respondent to retrieve the relevant audio files within the next two days. However, on July 25, 2018, Respondent informed FHFA-OIG that she was going to obtain another counsel\textsuperscript{1} to represent her in the OIG investigation.\textsuperscript{2} Respondent stated that she would provide the name of her representative once secured. On July 26, 2018, the Respondent’s prior counsel confirmed that she was not representing Respondent in the FHFA-OIG matter.

The subpoena deadline passed on July 27, 2018. On July 31, 2018, FHFA-OIG contacted Respondent by email to request the name of the attorney whom she had retained for the OIG matter. Respondent responded with a host of questions not relevant to her obligation to comply with the Subpoena, e.g., questioning FHFA-OIG’s authority to conduct the investigation and its scope. On August 1, 2018, FHFA-OIG informed the Respondent that she was not the subject of FHFA-OIG’s investigation, and requested immediate cooperation to obtain the information required by the subpoena. FHFA-OIG again offered technical assistance, and emphasized the need for the complete audio recordings, with a rolling production acceptable thereafter.

Notwithstanding the fact that the Respondent received more than 18 hours of administrative leave time to work on responding to FHFA-OIG’s document requests, FHFA-OIG informed her that it would secure authority for her to use official work time to work on responding to the

\textsuperscript{1} FHFA-OIG’s investigation into allegations of misconduct is an independent, parallel proceeding to another matter in which Counsel represents Respondent.

\textsuperscript{2} FHFA-OIG has informed Respondent that she is a cooperating witness, not the subject of the investigation.
Respondent responded that she would not “work on it until the week of August 13, 2018,” and further, that she was not providing any evidence to FHFA-OIG until a parallel administrative proceeding reached a certain point (an indefinite period). Respondent also stated that she had not agreed to turn over personal, non-government property to FHFA-OIG or allow FHFA-OIG to attach devices to her personal property, effectively refusing to comply with the Subpoena.

ARGUMENT

I

THE FHFA-OIG IS AUTHORIZED TO OBTAIN THE RECORDS IT HAS SUBPOENAED


The Inspector General Act of 1978, as amended, 5 U.S.C. app. 3 § 6(a)(4) (“the IG Act”), authorizes an inspector general to require by subpoena the production of a wide variety of evidence “necessary in the performance of the functions assigned” by the IG Act and further provides that such subpoenas “in the case of contumacy or refusal to obey, shall be enforceable by order of any appropriate United States district court . . . .” Id.

II

THE COURT SHOULD ENFORCE FHFA-OIG'S SUBPOENA

The role of a district court in enforcing subpoenas issued under the authority of the Inspector General Act is well established. As an initial matter, "[t]he [judicial review] process is not one for a determination of the underlying claim on its merits; Congress has delegated that function to the discretion of the administrative agency. Rather, courts should look only to the jurisdiction of the agency to conduct such an investigation." EEOC v. Am. & Efird Mills, Inc., 964 F.2d 300, 303 (4th Cir. 1992) (per curiam).

FHFA-OIG has authority through the IG Act, 5 U.S.C. App. 3, §§ 4(a)(1) and 6(a)(4), to conduct this investigation and to demand the evidence it seeks from Respondent, through its July 18, 2018, subpoena. Accordingly, the Court need only be satisfied with affirmative answers to three areas of inquiry regarding the FHFA-OIG subpoena at issue: (1) is FHFA-OIG authorized to investigate the matter?; (2) has FHFA-OIG afforded due process to Respondent?; and, (3) has FHFA-OIG demanded information from Respondent that is relevant to the FHFA-OIG's investigation or inquiry? The answer to all three inquiries is "yes." See, e.g., United States v. American Target Advertising, Inc., 257 F.3d 348, 351 (4th Cir. 2001); EEOC v. Lockheed Martin Corp., Aero & Naval Systems, 116 F.3d 110, 113 (4th Cir.1997); EEOC v. City of Norfolk Police Dep't, 45 F.3d 80, 82 (4th Cir. 1995).

Accordingly, the United States has established its prima facie case for enforcement of the subpoena.
III

REASONS PROFFERED BY RESPONDENT FOR NONCOMPLIANCE

Respondent has not complied with the Subpoena requirements, but her reasons have nothing to do with the established test for enforcing Inspector General subpoenas. Respondent cited time constraints because she had been away just prior to receiving the Subpoena and plans to be away from August 6-10, 2018. Respondent has received more than 18 hours of administrative leave time to work on responding to FHFA-OIG’s document requests, and FHFA-OIG informed her that it would secure authority for her to use official work time to work on responding to the Subpoena. Respondent should have the sought-after material readily available because it is relevant to a parallel proceeding. Moreover, FHFA-OIG has worked to make the Subpoena production easy and expedient, with the least burden possible to Respondent. FHFA-OIG repeatedly has offered technical assistance to facilitate the production of the full, unedited audio files and any other computer-hosted materials in Respondent’s care, custody, or control. FHFA-OIG remains amenable to a rolling production of materials after receiving the audio files.

Respondent’s challenges to FHFA-OIG’s independence and authority lack merit. FHFA-OIG’s authority to conduct this investigation is well-established under the IG Act and HERA. FHFA-OIG must fully investigate allegations of misconduct at FHFA in a timely manner and determine whether any allegations are substantiated. Respondent is a person who has information necessary for OIG to obtain in order for OIG to fulfill its statutory duties. Respondent has previously produced only partial audio recordings and transcripts of partial audio recordings, which appear to be incomplete. FHFA-OIG believes that there are additional audio

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3 FHFA-OIG may conduct an independent, parallel investigation into matters within its jurisdiction notwithstanding the fact that the conduct under investigation may also violate other laws or regulations that provide individual remedies to aggrieved parties.
recordings made by the Respondent of her conversations with the Director. FHFA-OIG also seeks any and all transcripts of those recordings, handwritten notes and other materials relevant to FHFA-OIG's investigation. It is critical that FHFA-OIG obtain these materials—especially complete, unedited copies of the audio recordings that Respondent possesses—because she likely is the only person who possesses much of this information.

Respondent is not complying with the Subpoena, and the deadline for production has passed. Specifically, the Respondent is refusing to turn over requested information until after her parallel administrative matter is completed – some indefinite time – and her statements raise significant doubt regarding whether she will ever comply with the lawfully-issued Subpoena.

Respondent does not contend that she has been denied due process. Respondent has not claimed that the information sought by FHFA-OIG is not relevant. Instead, Respondent has raised various irrelevant, specious arguments to assert justifiable noncompliance, which now include the search for new counsel. The Subpoena satisfies the requirements for a valid subpoena and should be enforced.

CONCLUSION

WHEREFORE, Petitioner, the United States, respectfully requests that the Court:

1. Order Respondent to comply with the Subpoena and produce the recordings and documents demanded by the Subpoena within ten days of the date of this Court's Order, and,

2. Grant such other and further relief as the Court finds just and proper.

Respectfully submitted,

G. ZACHARY TERWILLIGER
UNITED STATES ATTORNEY
RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018

EXHIBIT 4
Part 1 of 3
MEMORANDUM OF INTERVIEW
OF
MELVIN L. WATT
Washington, D.C.
Thursday, October 11, 2018

Interview of MELVIN L. WATT, a witness herein, called for examination by the FHFA-Office of the Inspector General, in the above-entitled matter, pursuant to agreement, the witness being duly sworn by a Notary Public in and for the District of Columbia, taken at the offices of Federal Housing Finance Agency, 400 7th Street, Southwest, Washington, D.C., at 2:00 p.m., Thursday, October 11, 2018, and the proceedings being taken down by Stenotype by RPR, FCRR, and transcribed under her direction.
APPEARANCES:

On behalf of the FHFA-Office of Inspector General:
- RICHARD PARKER, ESQ.
  Dep. Inspector General for Investigations
  Federal Housing Finance Agency
  400 7th Street, SW
  Washington, DC 20006
  (202) 414-6439

ANGELA CHOY, ESQ.
Asst. Inspector General for Evaluations
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20006
(202) 414-6439

EXHIBITS

EXHIBIT NO. 1 FHFA Form dated 5-29-18
EXHIBIT NO. 2 Memo dated 3-6-14
EXHIBIT NO. 3 Organizational Chart
EXHIBIT NO. 4 OWI Chart
EXHIBIT NO. 5 Memo dated 11-7-17
EXHIBIT NO. 6 FHFA Form dated 5-29-18
EXHIBIT NO. 7 Letter dated 7-27-18
EXHIBIT NO. 8 Letter dated 9-2-18
EXHIBIT NO. 9 Colloquy Trott/Watt
EXHIBIT NO. 10 Transcript of Recording #1
EXHIBIT NO. 11 Email dated 8-19-14
EXHIBIT NO. 12 Calendar dated 9-11-15
EXHIBIT NO. 13 Text Messages
EXHIBIT NO. 14 Transcript of Recording #3

PROCEEDINGS

On behalf of the Witness:
- RAYMOND C. FAY, ESQ.
  Fay Law Group, PLLC
  1250 Connecticut Avenue, NW
  Suite 200
  Washington, DC 20036
  (202) 263-4604
  Rfay@faylawdc.com

Whereupon, MELVIN L. WATT, was called as a witness by counsel for the FHFA-Office of the Inspector General, and having been duly sworn by the Notary Public, was examined and testified as follows:

EXAMINATION BY COUNSEL FOR FHFA-OIG

BY MR. PARKER:

Q. Mr. Watt, good afternoon. I'm Rich Parker, I'm the Deputy Inspector General for Investigations at FHFA, your agency. And this is Angela Choy to my right, the Assistant Inspector General for Evaluation. You know us both. Sir, do you want to enter your appearance on the record?

MR. FAY: My name is Raymond Ray, representing Mr. Watt here.

BY MR. PARKER:

Q. So, Mr. Watt, we're here today to ask you a couple of questions about some hotline complaints that have come in over the course of the last several months concerning the creation of an executive
position in the Office of the Chief Operating Officer, and allegations concerning how that position was established and filled. I've discussed that with your counsel, Mr. Fay, and if there's no reason you can think of we shouldn't go forward, then I'm just going to ask you a couple of questions and then turn it over to Angela. Okay?

A. Okay.

Q. Sir, I'm going to show you what we're going to mark as Exhibit Number 1. I have a copy for Mr. Fay as well, sliding it over to you, Mr. Watt.

11 And I'm going to give this to the court reporter.

MR. PARKER: Can you mark this as Number 1, please, ma'am.

(Exhibit No. 1 was marked for identification.)

BY MR. PARKER:

Q. Sir, what we have there is a document that is signed by you at the bottom, 7-14-2017. If you would please take a moment and examine that for me and tell me if it looks familiar to you, please, sir.

A. Yes.

Q. Thank you, sir. Is Exhibit No. 1 the record of your decision to establish a new executive position in the Office of the Chief Operating Officer?

A. It is, yes.

Q. Does it contain all of your reasons for establishing that position, sir?

A. I don't know that it contains all of them.

Q. Can you take a look at it and tell me which ones are missing?

A. I mean, I couldn't do that quickly, but this is a -- was prepared by other people.

Q. Is that [redacted] sir?

A. I don't know exactly who prepared it. It came to me via [redacted] yeah.

Q. Did [redacted] elaborate the document to you, sir?

A. Yes, sir. Yes. And I reviewed it at the time, yeah.

Q. What did he say it was, sir?

A. He said it was his position description.

Q. Did he say it was his recommendation to...

[Redacted text]
Q. And then throughout, I think, '15, '16, '17, my recollection is that it actually was not formally moved until -- we made the decision to move the PMO office in the first quarter of 2017. And then -- so it would have been on our priority list in 2017 -- in 2016, and actually in 2017.

Q. So after it was agreed to move it, the PMO to OCOO, it became a job to recommend to you how to manage it, right?

A. Well, he wouldn't have recommended it to me. He would have started managing it. And I don't know that I would have been really involved in a conversation about how to manage it. At some point he decided that it made sense to consolidate PMO with our quality assurance office, and at that point we had a discussion about that.

But the actual management of the PMO office would have been totally within his jurisdiction, because just like it was in DOC's jurisdiction when it was in DOC, it would have been under decision-making process once it moved to OCOO.

Q. So, okay. At some time did you tell you that he was considering managing it by creating another executive to serve in OCOO?

A. Yes, he did.

Q. Did you have a conversation with him about that?

A. I'm pretty sure I had, yeah.

Q. Do you recall how many you had?

A. I don't recall that we had a lot.

Q. More than three or less than three?

A. I don't have any real recollection, to be quite honest. I mean, you know, there are a lot of decisions we make here that I just -- I can't keep up with the number of conversations I have with people about --

Q. But is it correct to say -- and correct me if I'm wrong, but is it correct to say that you do recall having at least one conversation with him about that?

A. Yes.

Q. And could you tell me where that
1 conversation took place and who else was present, sir?

A. It probably would have taken place in my office at a regular -- I mean, I meet with every one of my direct reports -- I meet with on a regular basis every other week, sometimes with other people.

Q. I see. When he came to talk to you, sir, at the conversation you recall, did he bring with him some notes?

A. I don't know what he brought with him to be quite honest.

Q. Okay.

A. I have on my list here that I completed the decision, Re: The reorganization of PMO and quality assurance on July 11, 2017, but --

Q. That's the date --

A. That is actually -- so that would have been the date that it was formally presented to me, but there were probably some conversations prior to that time leading to that.

Q. And you recall at least one of them, yes?

A. Yes.

Q. And when you say formally presented to you, so formally presented means that you got what has been marked as Exhibit No. 1?

A. Yes.

Q. And this Exhibit No. 1 represents the record upon which you made your decision. Is that right?

A. Yes.

Q. And when you made your conversation with [redacted], do you recall whether or not he told you that he had solicited from individual stakeholders their input on how to manage PMO within the Office of the Chief Operating Officer?

A. Yes. He told me that he -- I think he used the word [redacted] by going to various people in OCOO to talk to them about it, and that he -- that various people wanted PMO under them as opposed to what he ended up doing.

So, yeah, he -- I think he used the word [redacted]
A compelling case. If I recall, but, I mean, I don't know exactly what it says because I haven't reviewed it probably since I signed it.

Q. Okay, sir.

A. To be quite honest.

Q. Let's go back to 2014 and 2015. You actually authorized a buy-out to reduce the executive -- the EL-15 ranks, didn't you?

A. Yes.

Q. And according to the HR department with whom you spoke as late as yesterday, you were able to reduce the executive ranks by 7 LLS, and you were able to reduce the EL-15 ranks by seven, at the cost of about $3.39 million. Does that sound right?

A. I'm sure I've got those numbers at some point, but I don't have any independent recollection.

Q. It was successful at reducing the executive ranks as you just told us?

A. It was modestly successful, yes.

Q. Since that time, though, the HR --

A. I would alert you, though, that a primary motivation of the buy-out was less about reducing the executive level positions than the political realities that had -- that surrounded my confirmation.

A. A lot of people had different notions about who I was as a -- who I would be as a director.

Q. And I didn't want anybody to feel like they were captive to this organization. So we created a buy-out opportunity for people who felt they would rather leave than be managed by me. And that was one of the primary motivations, as much as reducing the management level positions.

Q. Now, it probably wasn't justified quite like that in the write-ups about it, but that was certainly part of my motivation for it.

A. Yes.

Q. [b](6);(b)(7)(C) back in 2014 when you authorized the buy-out?

A. Yes.

Q. [b](6);(b)(7)(C) sent out a memorandum to announce the buy-out, and I'm going to show you that to you in just a moment. I'm going to mark for you the third line -- I'm going to read it now and give it to you to read, sir. It says: Given the
organizational issues that had to be addressed when
FHFA was created, the agency's leadership staffing
ratios was disproportionately higher than the general
benchmark for other agencies of our size. That seems
to me to be a reason to have a buy-out.

A. Yeah, well, that's consistent with what
I'm saying. But I'm telling you that aside from that
document, I mean, normally when you're writing a
document like that you're not going to put what I
just -- the kind of considerations that I just
described to you. And this is about -- this is about
trying to create the whole frame. So I don't -- you
know, I'm clear that that was one of the
justifications that was given. And I don't know how
the other justification was handled, but I know that
that was general knowledge that everybody in the
organization had. I mean, because, I mean, one of
the concerns I had was, I didn't like -- I don't like
unhappy employees, and this was an opportunity to
create an opportunity for people who wanted to get
out because they were either committed to the prior
director or felt uneasy about the fact that I was
becoming the director of the agency. And it happened
pretty quickly. You notice this is dated March 6,
2014.

Q. Yes, sir, it is.
A. And I just started as the director on
January 6th of 2014.

MR. PARKER: Will you mark that exhibit
next, please. Thank you very much.
(Exhibit No. 2 was marked for
identification.)

Q. So that buy-out plus the high staffing
ratios, and what you mentioned was the number of
executives because of the merging of the two
agencies, created in your mind the requirement to
have a compelling case before you're going to make
new executives. That's what you said, isn't it?
A. Well, when you say in my mind, understand
that this -- the top heaviness existed before I got
here. Right? So that was in the mind of a lot of
people. I think my primary motivation, to be quite
honest, was the second motivation that probably is
not even reflected in that document because between
January 6 of 2014, and March of whatever that date is
on that document, March 6, 2014, I mean, that's
basically 90 days -- January, February, March, yeah,
that's 60 days. So for me to have made that kind of
assessment that quickly lets you know that it wasn't
in my mind as much -- what was in my mind was, look,
all kinds of perceptions have been created about me
as the person coming in as the director of this
agency. I don't want unhappy employees, and this is
a good opportunity to allow anybody who felt like
they wanted to leave to do that. So that was my
primary motivation in my mind.

The memo I think was a reflection of ideas
that people had before I got here.

Q. Did you agree that the staffing ratios
were too high?
A. Obviously. This got sent out. I don't
know if I signed it.

Q. No, your
A. I think I approved it. I didn't think he
would have sent it out without me at least seeing it.

Q. And seven executives is, I think you said
something to the effect of it's a good start, but
more was needed?
A. Well, it helped. But, again, I'm still at
that point assessing what the organization is going
to look like and trying to make some assessments
about it. I think the general perception has
continued that the agency is top heavy.

Q. Do you believe it's still top heavy?
A. Probably. But at the same time, if you've
got people in management level positions who are
misplaced and you need a management level position
that will enhance the effectiveness of the
organization, and you make a compelling case for it,
which is what the standard was that I set. This is
not the only executive level position that I think
has been created since I've been here, but every one
of them has been created with substantial
documentation and support. What I generally
characterize as a compelling basis for doing so.

Q. Okay. So in Exhibit Number 1, which you
have a copy of in front of you, I'd like to ask you a
couple of questions.
Q. You may be looking at Attachment 2, sir.
A. That's a different attachment. I thought you said it was the one --
Q. There are two attached to Exhibit 1.
A. Sorry, I looked at the wrong one. All right. Yes, I see that now.
Q. So is it -- to your recollection, [(b)(6)]
A. [(b)(6)] only discussed with you reluctance for his subordinate executives to manage PMO and not the combination PMO/OQA?

Q. He didn't say anything about OQA?
A. Sorry. I looked at the wrong one. All right. Yes, I see that now.

Q. So is it -- to your recollection, [(b)(6)]
A. [(b)(6)]

Q. So is it -- to your recollection, [(b)(6)]
A. [(b)(6)]

Q. I have a very big poster here, which I'm going to describe for the record as the Office of the Chief Operating Officer, a wire diagram, dated June 2017. It has an exhibit sticker on the bottom.

MR. PARKER: You'll mark it next for me, ma'am.

(Exhibit No. 3 was marked for identification.)

BY MR. PARKER:

Q. Why don't I put it over to you, sir, and you can have a look at it. By the way, sir, it is an attachment, Number 1 to Exhibit Number 1, which you've identified as the administrative record on which you made your record. I blew it up because I wear glasses and I recommend that you wear glasses if you're going to try to look at Exhibit No. 1. But I blew it up for you there.

A. I just started in July -- this is my first set of glasses.

Q. God bless you, sir.
A. It helps me. First of all -- Attachment 1?

Q. Can you tell me what executive is over OQA in that diagram, sir?
A. It says vacant at that point. Yeah.

Which is probably -- well --
Q. Actually, sir, the wire goes between chief operating officer, vacant, [(b)(6)]; vacant, [(b)(6)]; and the Office of Quality Assurance, doesn't it? So it doesn't look like there's any officer --
A. Oh, I see.
Redactions on this page concern individuals who are not subjects of the investigation. The text is redacted to protect their privacy and their input during the deliberative process.

1. detail with me, but I couldn't swear that he didn't.
2. I just don't recall.

3. Q. Well, at the meeting we're talking about
4. he was meeting to discuss with you whether or not to
5. create a new executive position, right?
6. A. I think he was floating different ideas.
7. He was considering different ideas. And my advice to
8. was, look, make a decision that you think is in
9. the best interest of the organization, and support
10. it, if you're going to make a decision. And I would
11. have -- I think I probably would have supported any
12. decision that he made.
13. Q. Did you tell him that? Did you tell him
14. you'd support whatever decision?
15. A. Probably not.
16. Q. Probably not?
17. A. Probably not. But certainly not
18. explicitly, I might have implicitly said that,
19. because that's generally the way I deal with the
20. people who report to me. I trust their judgment.
21. And by that time, he had been in this position for a long period of time. He had gotten
22. (b)(6); (b)(7); (C)

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1. (b)(6); (b)(6); (b)(7); (C)
2. was trying to get him to take the
3. (b)(6); (b)(7); (C)
4. You know, that's just the way I manage. I'm not a micromanager from an organization
5. or personnel perspective.
6. Q. came to meet with you, I understand,
7. you recall once, about the matter which is contained
8. in Exhibit 1?
9. A. I recall at least once.
10. Q. Yes, sir, at least one. Pardon me. And
11. that conversation was about whether or not he was
12. going to recommend to you the creation of an
13. executive position to manage PMO in your
14. organization. Is that correct?
15. A. That's correct.
16. Q. And he discussed with you the fact that he
17. (b)(7); (C) that idea, his word, not ours, with the
18. people that worked for him, the executives. Yes?
19. A. That is probably a general summary of what
20. happened, but --
21. Q. Feel free to answer it, sir.
22. A. I can't add to it because I don't have any
23. (b)(5); (b)(5); (b)(7); (C)
at options. Where do you put PMO? Do you consolidate it with somebody else? Do you create an executive level position? And my response to him is, look, these are decisions within your control, at least in terms of recommending them, and you need to do what you think is in the best interest of the organization.

Q. What you did he tell you was in the best interest of the organization.

A. Well, when he gave me this, then I knew what he had decided was in the best interest of the organization.

Q. Did he also tell you that he had decided was in the best interest of the organization.

A. I don't recall that he said that, but I could have, I just don't recall.

Q. Did he tell you that he sought input from Simone Grimes on that decision because they would be affected by it?

A. He definitely didn't tell me that because Simone Grimes, would tell you about that?

A. He definitely didn't tell me that because she, Simone Grimes, would tell you about that?

Q. Did she come to see you about the creation of the executive position after she thought that he shouldn't create it?

A. I don't think so.

Q. She didn't --

A. I don't recall.

Q. She didn't come into your office and tell you about that?

A. I don't have any recollection that she did, but it's possible that she did. I just don't have any recollection of it.

Q. Well, it seems -- please pardon me, but it seems odd to me that as a director of an agency and a nonexecutive comes into your office and tells you that she's upset that someone is not going to create an executive position she wanted to apply for, I think you'd remember that.

MR. FAY: There's no question pending.

He's making a statement.

BY MR. PARKER:

Q. Doesn't it seem odd to you?

A. It doesn't seem odd to me at all, I'm sorry.

Q. Okay.

A. You know, you're trying to conjure up something that doesn't exist.

Q. I have a good faith basis for the question. We both know what that means.

MR. FAY: You're making more statements.

I thought you were going to ask some questions.

MR. PARKER: I can ask questions.

MR. FAY: Okay.

THE WITNESS: Am I finished with that?

MR. PARKER: She can roll it up.

MR. FAY: I'll roll it up.

MR. PARKER: Thank you.

BY MR. PARKER:

Q. I'm going to ask a specific question to make the record clear. Do you have any recollection of telling you that one of the options that he was considering was elevating and putting her directly under him and having OQA and PMO report to her?

A. I don't have any recollection of him telling me that.

Q. Would that be a viable option, though, in your opinion?

A. I have no idea what he would have considered a viable option.

Q. Do you think it might be a viable option?

A. I have no idea because I don't manage at that level, I'm sorry.

Q. And so for that same reason that you don't manage at that level, you don't have any opinion on whether it would be a good idea to put OQA and PMO under OTIM?

A. I wouldn't have any opinion independent of somebody making a recommendation to me, and I
16 Q. Would that be a good reason to create it in your mind?

17 A. I don't think so. It wouldn't be a compelling reason to create an executive position, it would be one of the factors that one might consider because we also are trying to accomplish some additional objectives such as diversifying management, and EEOC has been pushing us to do that.

18 Q. Yes. Before you decided to accept Simone Grimes' recommendation and create the new executive position in OCOO, was it made clear to you that Simone Grimes wanted to be an executive in this position in OCOO? If so, how?

19 A. She made it clear to me for a long period of time, yes.

20 Q. On what occasions did that occur, sir?

21 A. Multiple occasions.

22 Q. Over what period of time, sir?

23 A. Probably starting some time in late 2014 or early 2015.

24 Q. And prior to making your decision to create an executive position in OCOO, did you tell Ms. Grimes that you thought she had the potential to serve as an executive? If so, how?

25 A. I don't recall that I told her that, but I could have, yeah.

26 Q. Do you recall what you told her about her potential to serve as an executive?

27 A. I think everybody in our agency who dealt with Ms. Grimes viewed her qualifications as being -- she had done an exceptionally good job as the head of PMO, and people thought highly of her skill set. But beyond that, I don't know what else I could say about it.

28 Q. I kind of wanted to know if you told her that she had potential to serve as an executive?

29 A. I kind of wanted to know if she had potential to serve as an executive? If so, how?

30 A. I don't think he -- he may have. I don't know. I don't have any recollection that he said it in that way, but I think it was general knowledge that Ms. Grimes was one of the people in the agency who had -- who had good skills and should be considered if an executive level position ever got created.

31 Q. No matter what words he might have used, what was your opinion of her potential to serve as an executive when he expressed that to you, if he expressed that to you?

32 A. I don't recall that he had an opinion about her as an executive. He was expressing an opinion that she was doing good work, and I think that was a universally acknowledged thing. And I was observing it because she was the point person on an in number of things within DOC that came to the conservatorship committee.

33 So, I mean, I don't think you'll find anybody in the agency who didn't think that she was a, quote, unquote, rising star, so the speak, in the agency.

34 Q. So you had contact with her in the context of the conservatorship committee, is that right?

35 A. Yes.

36 Q. And did you have occasion to form an opinion about her potential to serve as an executive?

37 A. I don't know that I have an opinion about...
her potential to serve as an executive because that
is a process -- nobody gets appointed as an executive
without going through a competitive process, you
know. Anybody who gets an executive level position
has to go through a competitive process.

Q. Did you form an opinion about her
potential to serve as an executive, or you didn't?
A. I don't know that I had an opinion one way
or the other. I just thought that she was
well-qualified at what she was doing.

Q. Did you ever tell that he thought Simone Grimes had potential to serve as an
executive?
A. I don't recall that he did, but that's
quite possible that he did.

Q. Well, if he had said that, would that have
counted for you? Would you have taken that into
consideration?
A. Why would I be taking it into
consideration? Unless there was an executive
position that she was bidding for, she was going to
have to go through a competitive --

took many opinions into account. I
would have taken any of my direct
reports' opinion about people into account, yes. I
should appoint as the

Q. Did you ever tell that he was trying to determine a career
advancement path for Ms. Grimes?
A. Yeah, we had some conversations about
that, I don't remember the specific content of the

Q. Right. Did you form an opinion about her
potential to serve as an executive, or you didn't?
A. I thought you just told me that everybody
knew she wanted to be an executive and
was having a career progression path discussion with you.

Q. That didn't include her becoming an executive, that
discussion?
A. Well, not -- because without a position,
he wouldn't have had that discussion with me. Now,
if he was contemplating a creation of a new executive
position, I think he would have had that discussion.

Q. But I don't recall ever having that a discussion
about creating an executive level position for her.

Q. Did you ever have a discussion
with you about creating a career advancement plan for
Ms. Grimes and his desire to help her do that?
A. I don't have any recollection that he did.

MR. PARKER: Would it be all right if we
A. Probably more than one. And you know, not necessarily only about this position, but if you go back and look at division to division, based on what their responsibilities are. I'm very hands-off -- I shouldn't say hands-off. But I'm cognizant of what goes on in the regulatory side, but I never tried to influence a rating for one of the regulated entities, for example. Again, I get all of the exam reports, I review them, I question them sometimes about, you know, how did you get to this result. But I have never -- so, you know, I don't have a vision about how to -- how the examination or regulatory side ought to reach decisions about how they rate our regulated entities, for example.

So that is why I was hedging -- why I was hesitating a little bit, because depending on which division you're talking about, my vision would be more pronounced or less pronounced.

Q. Does being a good manager require you to get your subordinates to effectuate your vision for the organization?

A. At some level, yes.

Q. Does it require you to get your subordinate managers to do what you want them to do in the way you want them to do it?

A. No. It requires them to give me their honest input and approach things in a thoughtful way, but not to drag them out forever. And probably in the OCOO space, my vision of the organization, you know, this is about managing the organization and getting things done. It's not about policy decisions, such as DHMG, for example, would be making policy decisions. DOC would be making policy decisions for the enterprises while they are in conservatorship.

My vision about that is more pronounced than it is about personnel and operational issues that would be under the heading of parking, for example, or how to do parking. I mean, you know, I'm generally aware of it. I have to participate in it and go through the process they set up. So that's why I hesitated a little bit because my vision of how the organization ought to operate kind of varies from division to division, based on what their responsibilities are.

Q. Would you be surprised to learn that [redacted] decided not to [redacted]?

A. I don't know that I would be surprised or not surprised. I mean, none of this was within my knowledge before you just said it.

Q. So you didn't tell us that?

A. No.
Q. And because -- with our executive team, we had pretty much made it clear that PMO was going to serve the whole enterprise. In fact, one of the

A. I don't recall that PMO needed any

7(b)(5), (b)(6), (b)(7)(C)
because -- with our executive team, we had pretty much made it clear that PMO was going to serve the whole enterprise. In fact, one of the

A. I don't recall that PMO needed any

7(b)(5)
had a PMO office. And so -- but, you know, there was this view if it's in DOC, it serves only DOC. And that was not -- so that would be the only reason that you would be trying to get more visibility for it that I could think of.

Q. What reason is that again to get more

20 visibility? I thought I just heard you say that the decision had been made by the executives to place PMO in OCOO and that would give it the visibility it needed. Is that right?

A. That would be the only reason I could think of that anybody would be talking about giving it visibility to make sure that everybody knew that it was available to the entire organization.

Q. Was one of the reasons for establishing an executive position, that we told you about, was to

7(b)(5)

Q. Can you turn to page 3 in the letter portion of Exhibit Number 1. It's on the top right-hand corner are the words Page 3 of 3.

A. What is Exhibit No. 1, I'm sorry.

Q. It's the administrative record that you made the decision upon.

MR. FAY: It's not in this exhibit. I
Q. Perhaps if you take a look at it at this point, I would like you to refresh your recollection, sir.

A. Okay.

Q. Thank you.

A. Remind me again what the question is so as to read the memo at this point. Is this a document that I can mark?

Q. Sure, sir.

A. Okay. All right. So if the question is -- ask me the question again. I think I'm in a position to answer it now.

Q. Which alternatives to these two appointing an executive to OCOO does Mr. Watt lay out for you there?

A. Okay. I'm sorry, tell me again what the question was.

BY MR. PARKER:

Q. That's okay, I'll repeat it. I'm trying to determine if Mr. Watt has presented you with options for the leadership of PMO within OCOO in this administrative record upon which you made your decision to establish an executive?

A. I'm sorry. I missed the question.

Q. Okay.

A. Tell me again what the question is.

Q. Sure. Let's establish a few predicates first. We established that this is the record upon which you made the decision to approve a request for an executive. Yes?

A. Yes.

Q. And within this record then, can you please show me the alternatives that you considered, put forward by Mr. Watt, I blew up the attachment for you in the enlarged charts here.

A. No, I don't need the attachments, I'm just weighing these pros and cons on balance, I concluded that the best least disruptive alternative is to request an additional executive position. While concurrently laying out a longer term view of a more optimal OCOO management structure that could evolve over time.

So, I mean, I don't know that I got into a discussion with him about the specific alternatives. What I wanted to be -- what I think he was trying to make clear to me is that he had evaluated those alternatives, and I certainly wasn't going back and trying to reevaluate those alternatives. It was probably important to me that alternatives got evaluated, clearly, but what those alternatives were, I didn't think I needed to have extensive discussion about.

Q. Would you like no know what they were? We interviewed Mr. Watt yesterday. Would you like to know what they were?

A. Well, it's a little late for me to know now. That's nothing I can do about it at this point.

Q. Well, actually you probably could,
1. couldn't you?
2. A. I don't know whether I can or not. I have no idea what the status of any of this is since I have been completely removed from this process for now 60 days or so, maybe even more than that. But, you know, I'm out of this process, so I have no idea.
3. And with respect to this position, I wouldn't -- I had already -- I already delegated it before I was moved removed from the process.
4. So, you know, for me to know now what the considerations were when I really am not in a position to take them into account really wouldn't be particularly helpful to me.
5. Q. I know you delegated the decision-making on that position, but you could take that authority back, couldn't you?
6. A. Theoretically, but that ain't likely to happen. It's not likely to happen. You know, I got, what, 85 days now in my tenure as the director of this agency. I can't imagine any set of circumstances where I would delegate that decision.
7. Q. [b](6);[b](7);[C] told us last night that the reason -- [b](6);[b](7);[C]
8. Does that sound like [b](6);[b](7);[C] to you?
9. A. Well, I think he covers that when he says -- after weighing these pros and cons on balance. [b](5)
10. [b](5)
11. Now, what was behind that statement, I can't tell you. But, you know, for me to say that's [b](6);[b](7);[C] I don't have the context for me to be able to judge that.
12. Q. I can give you the context. We interviewed [b](0);[b](7);[X] and asked him why he recommended an executive position, and it seemed that
make this decision. And those are difficult
decisions all the time. I mean, we're not measuring
0 versus 100, we're often measuring 49 versus 51, and
you're trying to make a decision about what you
believe to be in the best interest of the
organization. And I have no doubt in my mind that
I was trying to figure out what was in the best
interest of the organization.

Now, what all he took into account, I
can't tell you. But if the objective is to have me
say he's a [b] (6) ; (b) (7) ; (C) because he was vexing
about it, I vex about a lot of decisions and, you
know, at some point you have to make a
decision. It is not always a perfect decision. But a 48/52
decision, a 49/51 decision quite often is the mark of
what managers have to deal with.

Q. So do I understand you correctly to say,
sir, that you didn't go behind any of the
representations in the document that you just read to
determine whether or not to approv[e] (6) ; (b) (7) ; (C)
recommendation?

A. I did not. Yeah, you understood that.

Q. And so are you limited, sir, in
determining whether or not to create a new executive
to the matters in this letter or were there other
options open to you?

A. You mean about creating a new executive?

Q. Yes, sir.

A. I'm sure there would have been other
options available to me if I had changed the policy,
and I have the authority to change the --

Q. Couldn't you have asked [b] (6) ;(b) (7) ;(C) whether
there were other options available?

A. Obviously, he's --

Q. Because there's a --

A. Obviously he's taken into account a bunch
of options and been considering this for a long
period of time. I mean, that would have just
prolonged the process even more.

Q. But you weren't curious to know what the
options were? You weren't curious about that? You
were going to create an executive position, it seems
like quite a thing. You weren't curious at all, sir?

A. Is that a question?

Q. Yes or no. Were you curious or not, sir?

A. I doubt that I was because I don't
typically manage at that level. But I can't say
whether I was curious or not because I don't have
recollection of this. I obviously made a decision
when I got this memorandum, and I thought it was a
sound decision, and I continue to think it was a
sound decision.

Q. If you had-- I'm sorry, sir. So if you
had -- would you have made the same decision if you
knew that [b] (6) ; (b) (7) ; (C) [b] (5) ; (b) (6) ; (b) (7) ; (C)
[b] (6) ; (b) (7) ; (C) on the flow chart that I showed you, which is marked
as Exhibit No. 1 -- in Exhibit No. 1?

A. I would have made the same decision if
[b] (6) ; (b) (7) ; (C) recommended it.

Q. I don't understand the answer. Could you
explain that to me.

A. If [b] (6) ; (b) (7) ; (C) recommended what he did, I would
have probably taken his recommendation. If he had
recommended going a different way, I probably would
have taken his recommendation. If he had said a
better way to do this for the organization is to put
(b) (6) ; (b) (7) ; (C) over it, that would have been a
rational decision, but --

Q. It would have saved creating a new
executive, right? She's already an executive?

A. It would have done that, yes, but it would
have not necessarily been the best thing for the
organization, and that's the criteria I used.

Q. Why would it not be the best thing, sir?

A. I'm not saying it wouldn't have been, but
obviously [b] (6) ; (b) (7) ; (C) didn't think that it was the best
option. And I wasn't going behind [b] (6) ; (b) (7) ; (C) and looking
at multiple different options to second guess his
recommendation.

Q. Do you --

A. That is not the way I managed in this
agency.

Q. Is [b] (5) ; (b) (7) ; (C) Do you
think she's a [b] (6) ; (b) (7) ; (C) sir?

A. [b] (6) ; (b) (7) ; (C)

She's had some serious challenges, organizational
challenges that she inherited, and I think she has

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1. methodically tried to reorganize, organize her teams
2. in a way that get the best results,
3. Q. She recommended that [b]6[c]
4. [b]6[c]
5. [b]6[c]
6. [b]6[c]
7. [b]6[c]
8. But I'm surprised
9. to learn that he didn't discuss it with you. Don't
10. you think he should have discussed it with you?
11. A. No, I don't think he should have discussed
12. it with me because I have no idea why [b]6[c]
13. [b]6[c]
14. [b]6[c] -- I respect opinions
15. when it comes to what is happening in the [b]6[c]
16. [b]6[c]
17. And I've approved many of her
18. recommendations, but I would not have given much
19. weight to her opinion in [b]6[c]
20. Q. The management structure is management
21. structure. You just said she's met a couple of
22. challenges and [b]6[c]
23. so I would
24. see why [b]6[c]
25. A. I'm not sure where you're driving.

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1. Q. I'm driving, sir --
2. A. I'm trying to be responsive to your
3. questions, but you seem to have some preconceived
4. notion of where you're trying to get to. And I want
5. to be responsive to your questions, I'm not trying to
6. be uncooperative, but --
7. Q. I'm trying to understand --
8. A. But --
9. Q. I understand. I'm trying to understand
10. why you would approve an executive position given
11. that there are multiple options to it, recommended by
12. senior managers in the organization, and you were
13. not -- why you would do that in the face of all of
14. these options? I don't understand that. I just
15. don't get it.
16. MR. FAY: Counsel, I'm not going to say
17. much here. The difficulty is the fact that you're
18. testifying so much, it confuses the question. So the
19. questions are great. The testimony from you, not so
20. great. And you're testifying about all these
21. options, et cetera, et cetera, and Mr. Watt has told
22. you what he knows and what he doesn't know.

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1. THE WITNESS: I'm just telling you, my
2. decision was based on this recommendation. I think
3. it was a good decision. I don't know what all the
4. options [b]6[c]
5. considered. Obviously, he considered
6. them, which I think a good manager does. But at some
7. point you have to make your own recommendation and
8. decision about what is in the best interest of the
9. organization, and make a recommendation.
10. You know, I doubt that you will find any
11. time in the almost 5 years that I've been here where
12. I've gone down and just, you know, tried to
13. micromanage my direct reports. That is just not the
14. way that I -- especially on operational issues. Now,
15. policy issues, we give and take, we collaborate, we
16. argue, we fight, we fuss, and at some point if
17. there's divisions of opinion, I have to make a
18. decision. They are difficult decisions to make.
19. And I respect the ability of my managers,
20. my executive team, to make good decisions. I got
21. enough decisions that I have to make on a day-to-day
22. basis without going down in their shop and second
23. guessing every decision that they make. And I just

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1. don't do that. And if you think that's
2. irresponsible, I mean, you know, you just have to
3. think that, but that's just not the way I manage.
4. BY MR. PARKER:
5. Q. In light of what I told you today of the
6. options that were available at the time to manage PMO
7. and OQA, is it still your opinion that appointing an
8. executive was necessary?
9. A. It is my opinion that it was the best
10. option for the organization. Necessary -- I don't
11. know what you mean by necessary, other than in the
12. context of what I considered -- and what [b]6[c]
13. recommended and what I considered to be in the best
14. interest of the organization.
15. Q. What I mean by necessary, there were
16. already 10 executives in the Office of the
17. [b]6[c]
18. [b]6[c]
19. thing. Is it still necessary, in light of that
20. information, to create yet another executive after
21. the buy-out?
A. Well, I didn't make my decision based on that definition of necessary. I made my decision based on what was in the best interest of the organization.

Now, you can second guess the basis on which my -- but I never used the word necessary in my evaluation of this position. And your definition in this case may be what happens in quite a number of cases. The IG's definition of what's necessary and my definition of what's necessary don't always correspond, when they do, I try to take those into account. But if you're trying to get me to say that I would have done this a different way, I'm telling you, based on the information I had at that time, I would have made the very decision that I made.

And having seen how was wrestling with this, and approaching it, I believe that he was approaching it in a reasonable way.

Q. You made your decision based upon what was in the best interest of the organization, do I understand that correctly?

A. What I perceived and perceived to be in the best interest of his organization in his division, and what I believed was in the best interest of the organization, yes.

Q. Now that I provided you with new information from that was not available to you, do you still think that your decision is the one that's in the best interest of the organization?

A. I don't know the answer to that, and I'm never going to have the opportunity to cross that bridge. All I can tell you was that on 7-14 -- 2017, I thought this was in the best interest of the organization. And apparently on 7-11-17 thought it was in the best interest of his division.

You know, for me to go back and start hypothetically saying, you know, would I do this different now -- I don't have the capacity to do it different now, even if I were inclined. So that's just not something that I feel comfortable engaging in.

Q. Did you have occasion to discuss the creation of an executive position in the Office of the IG?

A. Yes.

Q. How many times have you spoken with her about that, sir?

A. A number of times. She has been advocating for it. I have the file on my desk now. We still haven't made a decision about it.

Q. I see. She recommended to you and you gave you a memorandum laying out her reason for creating that position?

A. Yes.

Q. So much the same thing that happened with

A. Yes.

Q. And did you exceed to the creation of the position an executive --

A. I haven't yet, but I might. We haven't made a final decision on that, and knows the status of that.

Q. The record seems to indicate that you started talking with her about this in November of 2017, so about 1 1/2 months ago. That is a pretty long time to make a decision, isn't it?

A. Not -- I certainly haven't had a recommendation from her in any kind of written form. I'm not even sure I have one now, to be quite honest.

But I've got a bunch of papers in a file that, to be quite honest, a lot of other things have distracted my attention from my ability to make a lot of these decisions.

So, you know -- you know, she's got -- again, a person that is perceived to be a very qualified person. It has some of the same parallels with this. But the creation of a new executive position is something that we don't approach lightly in this agency, and I never have and I think you go back and count the number that I've created, you know, you'll find that that's been the case all along.

Q. So what is the position that she wanted you to create?
1. A. That wants me to create?

2. Q. Yes, sir.

3. A. She wants -- she wants the person who is to be an executive position. And I'm not sure that it meets the criteria or doesn't meet the criteria. I haven't made a decision about it.

4. Q. What factors are you considering in that decision, sir?

5. A. The same factors that are considered in this --

6. Q. Which are?

7. A. The responsibilities of the position. How many people would be reporting to the position. You know, a number of factors that I would consider, but, you know, I'm not sure how that decision is all that relevant to this discussion. But I concede that there are parallels here, but that is a decision that hadn't even yet been made.

8. Q. So I'd like to show you what provided to us, which is the organizational chart. Can you mark this next, please, ma'am.

9. (Exhibit No. 4 was marked for identification.)

10. BY MR. PARKER:

11. Q. Where would the executive go on that chart, sir?

12. A. I have no idea. You know, I assume it would be on a line that would report directly to 

13. Q. How many people would then be reporting to the proposed executive, sir?

14. A. I have no idea.

15. Q. Can you count the boxes?

16. A. Well, it depend on how she organized it.

17. This is her existing organizational chart, how she would propose to organize it wouldn't necessarily be reflected on this chart. So I can't tell you how many people would be reporting to this person.

18. Did she also give you a proposed organization chart? I mean, she's lobbying people --

19. I don't know why lobbying the IG. You know, I mean, I'm not blaming her, she has strong feelings about it and she likes her opinions taken into account. And I try to take her opinions into account. But that doesn't necessarily mean that I approve everything that she brings to me. And I have to perceive that it is in the best interest of the organization before I approve it.

20. MR. PARKER: Can we go on break, ma'am?

21. (Recess).

22. MR. PARKER: I'd like you to mark an exhibit for me, please.

23. (Exhibit No. 5 was marked for identification.)

24. BY MR. PARKER:

25. Q. Sir, I show you Exhibit Number 5, it's a request from to establish an executive position in and it's dated November of 2017. Do you recognize it?

26. A. Yes.

27. Q. Did she in her request to you represent that she wanted to appoint to an executive position represented the agency to executives at the regulated entities, that is the FHLBanks and Fannie Mae and Freddie Mac?

28. A. Yes, that is true of a number of people in our organization that represent the agency at the regulated entities. That certainly wouldn't be a compelling reason.

29. Q. What about coupled with the fact that the individual had to have business acumen to understand the business of the agency and how would work with the business of the agency?

30. A. I think that's also true of virtually anybody that we sent out, not necessarily about but about whatever they are examining about. That wouldn't --

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Q. What about adding those two things, which by themselves, you indicated, are not persuasive with the fact that the individual had to work in the environment, which takes a certain amount of political acumen and savvy?

A. Well, I acknowledged that, but just about everything we do requires that also. I don't think that -- it is somewhat unique to the examination protocols. It is true, but it is also true that doing something on criteria for that is different from the criteria that I would apply in other spaces could undermine a number of things that we've tried to accomplish here.

I mean, it would be -- the first thing that people would say is that you're giving preference to preference to the environment. I mean, I'm just free-flowing about the kinds of considerations that I have to take into account. Now on the other hand, doesn't necessarily have to take that into account. She's just thinking about the efficiency of the organization.

My responsibility is to think about it on a broader basis. And so in that sense, I'm saying the same thing that I have said before with reference to the position. I give a lot of discretion about how people manage in their own space. But when it comes to creation of positions, I have to think about the totality of the organization.

Q. Did you mention to you, sir, that there's a problem or a discontent at one of the regulated entities being examined that she gets the phone call and the individual on the ground who is the supervising examiner doesn't because that person is not an executive?

A. Yes, she mentioned that. She's mentioned it, but, you know, my response to that is, the buck stops at the top in every division. And if people don't like what the person under you do -- and I think if you actually go back and look at the one of the things I've said to her is, I want you to be in the early years of this -- of the implementation of an examination program where

1 there is not another single agency in government that has a set -- has developed examination protocols. I [b(6)(b)(7)(C)]

2 hands-on. I don't want you to delegate too much of that responsibility.

3 So those are the kinds of things that I'm trying to -- because it is a brand new organization, and everything we do in that space, I can assure you, is watched.

MR. PARKER: Can you mark this exhibit for me next, please, ma'am.

(Exhibit No. 6 was marked for identification.)

BY MR. PARKER:

Q. Mr. Watt, this is a second request dated 5-29-18, for a creation of an executive position, about which we just spoke. Have you seen it, sir?

A. I don't know whether this is one of the things that's in my file or not. I've got a file on this on my desk. I haven't reviewed all of the things that are in that file, but this is not addressed to me. This is from [b(6)(b)(7)(C)]

Q. Isn't that because [b(6)(b)(7)(C)] and under the process the requests have to go through him?

A. No.

Q. That's what [b(6)] told us. Is he wrong?

A. Well, I don't think every request of this kind has to go through [b(6)(b)(7)(C)] I mean, if she's trying to create a new executive position, she might be seeking [b(6)(b)(7)(C)] But there's no requirement that it go through [b(6)(b)(7)(C)] There's no requirement that [b(6)(b)(7)(C)] send a request for a new executive position if she wanted to create one through [b(6)(b)(7)(C)] Not that I'm aware of. You know, that may be the way it has been done in the past.

But I don't know that I have seen this request in this form. It may be in the file that is on my desk. But we're talking about something that is really under active -- under consideration. I shouldn't say active consideration because a lot of
things have deferred my attention from a lot of
tings on my desk. But I haven't made a decision
about whether to create an executive level position
that whatever I do they are going to be detractors,
and I need to be satisfied in my own mind that I can
justify that the creation or non-creation of it is
the right decision for the organization, because that
is my ultimate responsibility.

Q. I understand.
MR. PARKER: Can you mark this next,
please, ma'am.
(Exhibit No. 7 was marked for
identification.)

BY MR. PARKER:
Q. Can you describe that document for the
record, please.
A. This is a memorandum from [redacted] to me,
Q. What does it concern, sir?
A. Request to designate an executive level
vacant position to LL associate director position.

Q. Do you know the genesis of that document,
sir? Do you understand why she did that?
A. I think she's been trying to figure out
how to accomplish what she -- what was not approved
directly, how she might be able to accomplish it
indirectly. And by going this route, as I understood
it from talking to her, it could be done without
necessarily creating an executive level position
because you would be putting -- and I have reviewed
this one because I marked it up and remember asking a
bunch of questions about it. How would this work?
Q. Does it help her case?
A. I don't know whether it helps her case or
not. It helps -- it would help in the sense that if
we didn't have to create an executive level position.
we wouldn't have to -- we wouldn't have to deal with
that. But it would certainly have some budget
implications that would have to be taken into account
because by doing it this way the person who will be
doing these responsibilities would be paid more than
they are paid now. And it would -- and it could
potentially create some precedent that -- I mean, I
think part of the reason I haven't acted on this is
there have been multiple ideas to try to move it
forward. And the most recent one of which just came
to me a couple weeks ago, not a different idea, but a
very long memo that [redacted] wrote justifying why this
was an executive level position.

Q. So I'll mark that one for you now.
MR. PARKER: Would you mark this, ma'am.
(Exhibit No. 8 was marked for
identification.)

BY MR. PARKER:
Q. Is that the memo, September 26, 2018?
A. I recognize it in the sense that I know I
gave me a document, which she said to me represent
e a significant amount of research that backs up her
position that this -- six pages of it. And she's now
lobbying me through the IG, it might give you some
indication of how strongly she feels about it.

Q. Can you describe that document for the
record, please.
A. This is a memorandum from [redacted] to me,
dated September 26th. And I know -- and I believe I have a copy of it in the file
that I have on my desk, but I have not reviewed it.

Q. Does it help her case?
A. I don't know whether it helps her case or
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forward. And the most recent one of which just came
to me a couple weeks ago, not a different idea, but a
very long memo that [redacted] wrote justifying why this
was an executive level position.
Can you explain that?

A. Well, part of it I can explain in the same context that I -- remember you asked me a question and I hesitated about the answer, and then I talked about different things and different divisions? I'd be the first to tell you, I am probably more hands-off in the operation side. But when it comes to things like [D(6);D((7)(C)] I mean, I was on the committee when [D(6);D((7)(C)] legislation was passed in Congress. I voted for it. I was one of the people who crafted it.

And I view a lot of the decisions that get made there as policy, not operational, which is why I say, okay, we just created an [D(6);(b) ] operation -- well, there was an organization, we just filled the position a couple years ago, I don't know when, maybe it was 3 years ago. I filled the position. I was very methodical about who I selected. A lot more methodical than some other positions that I either inherited or selected people for.

And I know that -- and I have affirmedatively, in writing, said to [D(6);D(D)] I want you to be hands-on in making a lot of these decisions. So to say that this is a complete analogy to what was done in [D(6);D(D)] I was the first to acknowledge to you that there were similarities.

There are similarities.

But the notion that I would apply the same kind of rigor to [b)(6)(D)] that I would apply possibly to DHMG or to DOC or to OMWI, you know, there are differentials, and it's my responsibility as the director to understand when those differential considerations have to be taken into account.

Because I know in this space, in the OMWI space, in the DOC space, everything we do is going to be second guessed, third guessed, split, cut, diced, you know.

And so when I make a decision on those things, I do tend to be a lot more hands-on yeah.

So, yeah, there are parallels. I was the first to acknowledge that in an earlier question that you asked. But to say that this is exactly the same situation, I think you have missed a bunch. And, you know, everything that appears similar is not the same.

Q. Well, how many executives are there in [D(8);D((7)]

A. [D(8);(D)

Q. And the request is to make a [D(6);(l) for a lot of the reasons that she laid out, correct?

A. Well, and I may do that. I don't know that I won't do that.

Q. You haven't for the last 10 1/2 months, that's why I'm asking you.

A. Well --

Q. And she's giving you four proposals. And she's taken the time to write what she told me --

A. Thank you for complimenting me on being so deliberate and thoughtful in my approach. I don't know how -- I'm not sure what point you're trying to make, Rich.

Q. Sir --

A. I hear where you're going. Unless you want to substitute my judgment for -- you didn't like my opinion here where I created it, and you apparently don't like my opinion here where I haven't created it. So, you know, that's exactly the kind of scrutiny we get on just about everything because whether we do it or don't do it, we get criticized.

Do you see what I'm saying? So --

Q. Let me just --

A. -- I don't think --

Q. Let me, please --

A. I don't think I made a decision over here, and I don't believe when I make a decision over here it will be a bad decision. Now, will it be 100 percent versus 51/48, 51/49, 52/48. It will be a close decision regardless, because I understand the arguments that [D(6);(D)] is making.

But I also understand that there are implications of this that go beyond the arguments that she's making, and it's my responsibility to take those considerations into account.

Q. Let me just make the record clear that I don't have an opinion about any of your decisions.

A. You seem to be very much critical --

Q. Sir, sir.
A. -- critical of this decision, while at the same time telling me I'm making a mistake not to make the same mistake that you --

Q. You can draw whatever --

A. That's what you seem to be saying.

Q. Sir --

A. I don't know where else this is going.

Q. Sir, I just told you I don't have an opinion, and you can draw whatever implications you wish, but I don't have an opinion.

A. I appreciate it. I'm glad you don't.

MR. FAY: Can I ask a point of information.

MR. PARKER: Please.

MR. FAY: With regard to all of the information that you've presented here concerning desire to have an executive position, were there any hotline complaints about this?

MR. PARKER: No, sir.

MR. FAY: Okay.

MR. PARKER: Not to my knowledge.

MR. FAY: All right. I thought we were here to talk about hotline complaints.

THE WITNESS: Let me just add one other factor. You say, would you make the same decision today if you were making the decision? Well, I'm never going to make this decision. I still got to make this one. And I have the history now of having made this one that I have to take into account in making this decision. And how I will weigh that, I haven't really taken a step back and tried to figure that out, to be quite honest. But I will tell you one thing, I'm going to be very deliberate about it because I know whatever I do they are going to be unhappy people.

BY MR. PARKER:

Q. And before you gave your answer there, sir, my next question was, making one new executive and making one new executive in OCOO where there are already 10 executives and where there is only one in --

A. Sure. I see how -- you know, everything I do engenders scrutiny. That's the very point that I have been trying to make to you, which is why -- and now an increased amount of scrutiny because anything I do in the last 90 days of my tenure here everybody is going to say I'm stacking the deck for the next director. So there's even an additional factor that has to be taken into account in every decision that I make, and we're making these decisions every day.

This is not the only decision that we have to make.

So, you know, forgive me for being more cautious now than I might have been. But these are -- from my opinion, they are two different circumstances and I'm applying the criteria that I think is appropriate in both of them.

Q. So one last question and then I'll turn it over to Ms. Choy. With respect to the executive position, is there any reason why that job couldn't be done by an EL-15 and you can plus-up the pay of?

A. I don't know the answer to that because I haven't evaluated it. It would have the same budget implications if you plussed up the pay that this most recent proposal would have, and I would have to take that into account if somebody proposed it. But that's something that I haven't evaluated because it hadn't been presented to me.

MR. PARKER: Thank you, Mr. Watt. I'll turn it over to Ms. Choy.

MS. CHOY: Thank you.

BY MS. CHOY:

Q. You testified last month that you mentor Simone Grimes?

A. I did.

Q. When did your mentorship of Ms. Grimes begin?

A. I don't know that I can put a date on it, but I mean, you know, when do you stop mentoring somebody? When they start coming to you when they asking for your advice on stuff, you try to give them advice. And if you go back and read -- I would suggest you go back and read what I wrote in the fresh facts for women's equality and think about how I think about mentoring people. I've been doing it 22 years in the practice of law and 21 years in Congress. And, you know, I think that's part of my
You know, I've been successful in life. I came from meager beginnings and I have got a lot of experiences over that time that I think is my responsibility, not just to go and hide under a bushel basket. There's something in the Bible that says, don't hide your light under a basket. So, you know, that's my philosophy on mentoring.

But in that document, what I say is, you know, I don't always think of this as a formal mentoring relationship. So you start -- when you start asking me, when did you your mentoring relationship start? You know, your mentoring people any time they ask you for advice.

Q. So there wasn't any conversation about you mentoring her?
A. No.
Q. So when do you recall her the first time approaching you for career advice or career opportunities?
A. As I recall, it would have been -- I asked, at some point in 2014, I asked Simone to write a memo about what the PMO office did. I think it would be helpful for you to go back and get that memo. It's a very extensive memo that she wrote. And, actually, the first meeting I recall having with Simone, formal meeting, was about that document. And I think pretty much from that point on, you know, I've given -- I've given Simone advice about what kind of car to buy, you know, after she had an automobile accident. I've talked to her about her travels to South Africa because I've made four trips over there, one before apartheid, one after apartheid before the election, one after the election, and one to Nelson Mandela's funeral.

I mean, these are experiences that I share with people that I think is important to share with people. I mean, you know -- so --
Q. So is it to say that one of the purpose to mentor her was to advice her on career advancement?
A. One of the -- yes, I would say that that would be true, not necessarily advancement, but options. I've talked to Simone about her -- about when and whether she should leave the agency and

You know, this is not about your advancement in FHFA, it's about providing an honest response to options that people may have available to them based on my own experience. And that conversation was actually based on my experiences with people in Congress who reported to me, who I said, look, it's time for you to get out of her and go into the private sector. You know, the time is hot now for you to do this. You've got experience.

So, you know, for me not to share those kind of experiences, I think would be derelict on my part.

Q. So do you mentor other individuals at FHFA?
A. Yes, I have.
Q. All right.
A. Men and women.
Q. Men and women. Okay.
A. And some of their children.
Q. Okay. So you gave Ms. Grimes your personal cell phone number to contact you?
A. Yes, I did.
Q. Do you have all your mentees contact you by personal cell phone?
A. Sure. I mean -- and most everybody in the agency that wants to contact me -- you'll notice I only have a Blackberry on my belt. I don't even carry my office phone. I don't have a land line at home. So there must be -- I bet you 50 to 100 people in this agency who have my cell phone number because if they really want to contact me, that's really the best way to contact me.

I don't answer the phone that was -- I use it to get email messages. I don't bring it to the office because I can check my email messages on the computer here. But I do not carry -- I have resisted carrying two phones. It's just -- I run back and forth to work, it's hard enough to run with one phone on your belt.

You know, I hear where you're going, but you know, if somebody is thinking that somehow that is out of the ordinary for me, it is not.

Q. So you would communicate by phone, by text
messages?
A. Yes.
Q. Do you maintain those text messages?
A. No, I normally delete messages fairly quickly. And I think you all have made a request for those messages, so I've given you -- I mean, you know, they may be accessible through a service provider, I have no idea, but I don't keep them on my phone because I get too many calls and too many text messages to maintain them. I'm not a pack rat. You know, most of what I have on my phone now is of my grandchildren, because when a message comes and I'm through with it, I'm going on to the next thing.
Q. Do you tell your mentees to stop by your office whenever?
A. Sure. I've made it -- the very first speech I gave to the whole agency, I said, my door is always open. If the door is not closed, it's open.
Q. So does Ms. Grimes stop by your office regularly?
A. Yes.

Q. How frequently does she stop by your office?
A. You know, at various times she has dropped by more or less frequently, depending on whether she had something to talk about.
Q. Did you talk about -- as relates to?
A. Relates to whatever she wants to talk about, you know, as long as I got time. You know, I'm not -- you know, I'm not a director who is distant from the people in this agency. And I think you'll find that my employee viewpoint scores have gone up dramatic every year that I've been here. I think that's important for people to -- for my employees in this agency to believe that I'm accessible to them.
Q. So during those meetings they are typically one-on-one?
A. Yes.
Q. Are they --
A. Unless somebody brings somebody with them. I mean, if they walk in -- yeah, yeah.
Q. How many times have you met her outside of the office one-on-one?
A. Let me see if I can count. Five, I think.
Q. Can you identify where you went in those five times?
A. We talked about the PMO memo at a restaurant in southeast. We had a meeting at Rosa Mexicano. We walked in Rock Creek Park. We went to -- we met at a concert at Blues Alley. And we met at my condo on one occasion. And so I guess there would be six, because she was at -- she also came to my retirement reception, which was at my condo also.
Q. What are the timeframes of these meetings?
A. Starting in June of 2014, and I think the last meeting was in November of 2016 -- you're talking about off campus.
Q. But onsite you've continued to see -- have meetings with her one-on-one?
A. Sure.
Q. In your office, elsewhere within FHFA?
A. Well, at division conservatorship meetings. In my office. If my door is open, people walk in. That's the way I also ran my congressional office. People thought I was crazy when I told my staff not to filter my calls. Not to ask whose calling. If somebody called and asked for me when I was a member of Congress, I said, put them through. I just, you know, it's amazing how we diffused issues that way, I mean, because people never expected to talk to me. And they'd get on the phone, oh, no, I never -- I thought you asked me. Oh, I didn't have any idea that I was going to be able to talk to a member of Congress.
Q. So you said the first thing, you discussed the PMO memo someplace in southeast?
A. Yes.
Q. Were they all for mentoring Ms. Grimes?
A. I think probably a combination. Some of them -- I think the Blues Alley and the walk in Rock Creek Park, probably no discussion of work. You
I know, these things merge in my mind what was discussed when, where, and how, but, you know, I just -- I've talked to her about work. I've talked to her about a lot of things that are not related to work.

Q. So the walks in the park and the Blues Alley, would that be a social activity that you were engaged in then?

A. Social in the sense that, you know, it probably -- 25 to 50 people in the agency that I've played golf with. Is that social? Yes. Males and females, by the way. So, you know, it's just -- I don't know that I always distinguished between social and, you know, because if somebody wants to talk to you, they want to talk to you about what they want to talk to you about. And so I don't try to make that kind of distinction.

Q. Just so I'm clear, that means you socialize with other mentees?

A. Yes.

Q. And you meet them one-on-one as well?

A. Yes.

Q. For dinners, concerts?

A. I have, yes. I have, yes.

Q. And have other mentees met you at your home alone?

A. Yes.

Q. Have they met you when other individuals are present?

A. Yes.

Q. I'm going to show you an exhibit which is a transcript of your colloquy with Congressman Trott from the September 27th hearing. So what I'll do is I'll read -- I marked it Exhibit J -- I'll read the question and you can read the response.

(Exhibit No. 9 was marked for identification.)

BY MS. CHOY:

Q. So, we're starting --

A. Let me get rid of this. I'm accumulating documents over here. Tell me which ones I can get rid of that you're finished with now.

MR. PARKER: I'll tell you what. May I come over and get them from you?
A. So let me just explain the sequence of
even events so that you're clear. I would say
between -- well, it might be better for me just to
read it to you because I've been preparing my
responses to interrogatories on the EEO matter. I
assume this is on the EEO matter. I don't know --
MR. PARKER: We're only looking into the
hotline complaints, sir.
THE WITNESS: I didn't understand the
distinction that Laura was making when she testified,
and I still don't understand it. But let me just --
let me -- I think it's probably easier so that I
don't end up giving contradictory statements.
In the period following
retirement reception at my condo in July 2015 and my
February lunch meeting with the complainant, that is
Simone Grimes, about her South Africa trip, the
complainant started to make periodic visits to my
office, during which we would discuss work and
non-work topics. The increased frequency of those
visits to my office and the odd times at which they -- the visits started to occur raised my
suspicions that complainant could be developing an
attraction to me that would be inappropriate for
either an employer/employee relationship or a
friendship or a mentor/mentee relationship.
Sometime prior to June 8, 2016, that is
when the Rosa Mexicano meeting was and this
collection took place. I requested an off site
meeting with the complainant after work hours for the
specific purpose of addressing and hopefully
eliminating my suspicions about the complainant's
intentions.
The complainant picked me up in the
parking lot and drove me to Rosa Mexicano. During
the trip there I made the specific comments quoted in
interrogatory 52, which is the comments that you just
read, or similar comments. The complainant denied
that she had any attraction of the kind I had
suspected.
I confirmed that my intention was to make
sure there was no confusion about whether there was
anything other than, quote, an attraction of
friendship, closed quote. You'll find that is in the
transcript. The complainant confirmed that if she
had given me a contrary impression in any way, it was
not intentional, and we went on to other topics of
discussion.
Q. Okay.
A. So that gives you the context in
which -- and my response to Trott -- to
Representative Trott, it was consistent with that
because that's what happened.
Q. So you were trying to be clear with her
that -- you wanted to get clarification from her that
she was not attracted to you?
A. And I got that clarification. And
actually it was that clarification that made it
possible for us to have the kind of walk -- the walk
in Rock Creek Park or meet at a performance venue or
even have her come to my house to talk about work.
Because, you know --
The last thing I need is for somebody to get
over their skis, you know, and have some kind of
emotional relationship with me in a situation where I
am their employer and/or their mentor, or even their
friend.
So, you know -- and that's based on
experience before, too, which I am not going to go
into. But the last thing you ever want is somebody
to be thinking one thing about you, and you not be
there with him, because then it destroys them, and
that's just not the way to be a good friend or a good
mentor.
Q. Okay. So with that response in mind, I
want to play for you a recording, and then follow up
with some questions.
(Exhibit No. 10 was marked for
identification.)
(Whereupon, the audio of the
transcript contained in Exhibit 10
was played.)
THE WITNESS: I'm having trouble
hearing it myself.
(Recording playing.)
BY MS. CHOI:

Q. So a couple of questions. Is that your voice?

A. Sure. Uh-huh.

Q. So where did this occur?

A. I believe it was -- that was the meeting at my condo.

Q. When did that occur?

A. According to her it was in November of 2016, but I don't have any independent recollection of the date.

Q. And it was just you and Ms. Grimes?

A. Yes.

Q. So what did you mean when you said you're guilty of having an attraction to her?

A. I have a friendship attraction to all my mentees, you know, I just, you know -- so I don't think there's anything in that transcript that you just played that is inconsistent with what I just said to you, to be quite honest. And so --

Q. So what did you mean by you can draw the line, much to your disappointment?

A. You heard her chuckle because she knew I was kidding her about -- the line drawing is draw a line between making decisions based on friendship and making decisions based on my responsibilities as director of this agency. And I've been very clear with Simone throughout this whole process that that's always the way -- I don't operate any other way.

Q. And so do you tell other mentees that you think that they are gorgeous?

A. Oh, yeah, I told a number of my mentees that I think they're gorgeous, yeah.

Q. Did you have an attraction to them?

A. A friendship attraction, yeah. They understand that I'm not, you know, that is part of building up their perception of themselves. And part of what I'm trying to say there is, look, you know, you got to be careful here in a relationship of this kind not to have a different opinion of yourself.

But you also have to be careful about what other people's perception of it is. So that's gotten more and more difficult over the years, I suppose, which is one reason I'm glad my term as a supervisor of anybody is about to end because it's just gotten more and more difficult to mentor people. And, equally, you know, you really -- you kind of have to understand where I came from.

I practiced law in a civil rights law firm that did extensive employment discrimination work. And in our firm we really never distinguished between men and women in the way -- I mean, the whole objective here is to get to a point where you don't have to get suspicious if you invite a female to do something that you would be -- not be suspicious about if you invited a male to do it. That's equality, from my perspective.

And so I've always tried to approach male and female friends and mentees in much the same way.

And I carry -- for 22 years we fought for that in the courts, landmark decisions to do away with employment discrimination. When I went to Congress, I took the same concept. It's in my DNA. When I came here, it's a bigger agency, and I've tried to follow the same concept. I haven't had -- well, I've had as many friendships, but not as many mentoring relationships as I have had, although I've had a number in the period that I've been here, not only with employees, but with the children of employees.

So, you know, that's who I am. And now I'm not sure that that's, you know -- I'm the first to tell you, this is in a sense a wake up call, it's a depressing wake up call when I know that there are men in this agency who have stayed at my house in Charlotte, who have visited in my home, who have visited in my condo, who I have much, much closer relationships with than the relationship I have with Ms. Grimes. And somehow the public is now saying that kind of equality is unacceptable. And, in my view, it's time for me to ride off into the sunset because the standards have become so confused that it's difficult to operate in them.

But, you know, I don't, you know -- the thing that is disappointing to me is, I don't have any view that Simone had any opinion that I was trying to have a romantic relationship with her.
A. I'm going to invite you, if you don't mind, to listen carefully to the May 10 recording.

Listen to it all the way through, in which we are still wrestling with this. Simone called me, I guess at the instance of her lawyers, or maybe it was her own instance, to ask me if I would help her build a timeline of our relationship. And I said, Simone, why in the world are you doing that?

There was nobody more shocked than I was, May 10, in that recording. When we got to the end of it and Simone said to me that she was -- that her lawyers had suggested that she file these harassment charges, because I don't believe Simone believes that one iota. And, you know, I hope everybody gets all of these tapes that -- she says she recorded all of them, and puts everything in context.

But I've done nothing with Simone that I believe is improper. Now, you all may -- some court may find it's improper. Maybe they won't even allow me to talk about the relationship that I've had with men in this agency, and previously. But I think we're setting ourselves up for a very unequal situation here. And I'm kind of glad I don't have to deal with it beyond January 6 of 2019, because that's just not the way I have lived the last 22, plus 21, almost 5 years of my life now.

It is difficult for me so -- you know, I was surprised when Laura testified that she was distinguishing this and that. You know, I assume that I'm going to be forthcoming about everything that has happened in this relationship. And if somebody says that I've done something wrong and somebody has to pay, I will think it would be a sad day because I will know that Simone -- Ms. Grimes, knows in her heart that there was no effort to pursue any kind of romantic relationship with her.

BY MR. PARKER:

Q. What were you trying -- what I want to understand is, what were you trying to accomplish by inviting a young woman to your apartment with soft music in the background playing, telling her she's gorgeous and you're attracted to her, but that you can draw the line, much to your disappointment?

What were you trying to accomplish by that?

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A. I don't think you can appreciate it without hearing the whole conversation. I hope you will --

Q. We have the whole conversation?

A. No, you don't.

Q. Tell me what I'm missing?

A. You're missing a bunch of --

Q. I'd like you to take this opportunity to tell me exactly what we're missing and put it on the record.

A. What we talked about at some length was employment options in the agency. This was at the end of the year. I thought -- and you're going to find this if you get all these recordings. I thought that a couple of possibilities existed that could play themselves out, and I've discussed those options with her.

Q. What were these, sir, please?

A. Well, I think you're better off to get the tapes and listen to them.

Q. I'm trying, but I really would like you to put everything on the record because we promised that we would give you an opportunity to put everything on the record, all the context. Please take your time and give us everything that you think is important.

A. Well, I'm not going to be able to remember every conversation we had, if that's what you're suggesting.

Q. You can supplement -- I'll come back.

A. Well, you come back after you get the tapes and you'll listen to them, and I'll tell you exactly what was being discussed. But one thing --

Q. Just continue --

A. -- I can tell in general, one thing that was being discussed was [b](5);[b](6);[b](7);[c]

[b](5);[b](6);[b](7);[c]

possibility that I might consider Ms. Grimes as a potential chief of staff, because a lot of the skill sets that you develop being over the Project Management Office are similar, and in fact, very similar to what has ended up doing.
I told her, as I recall, that I was pressing the [b](6)(b)(7)(C) either by competing for it or by me making a direct appointment, because that is a position that I could — that I could make a direct appointment for. We had — that was part of that discussion. And if that happened, then that would create an opening in an executive level position. And the one thing I have done to try to get people who are at level 15 into executive level positions, is when there is an existing open executive level position, make sure that we allow people at the 15 level to bid for those positions. Don't restrict it to people who are already --

But I couldn't promise that she would get that job, because that would be a competitive process. And I've never promised — I've never promised Ms. Grimes any position, because — even the chief of staff position, which I have -- I would have complete control over. I believe I said to her, you know, I might consider you for that position if you, that was not by any means any kind of offer of employment. I've never offered Ms. Grimes any position in this agency.

Q. So you have this conversation where you talk to her about the chief of staff position and other positions alone with her in your apartment with soft music in the background, and then tell her that she's gorgeous, you're attracted to her, and you can draw the line. I don't get it.


Q. I don't get it. Do you see how that looks?

A. Well, you don't get it because you're trying to make something of something that doesn't exist.

Q. No, sir.

A. I'm at my condo, she walks in, music is playing. What am I going to do? Cut off the music and have a conversation with her. I mean, this whole -- hey, you couldn't possibly be above board if you got soft music playing in the background.

Q. It doesn't help.

A. Well, okay. That's your perception.

MR. FAY: That's Mr. Parker's perception.

THE WITNESS: That's Mr. Parker's perception. And so you all can make whatever you want of it. You get the tapes and you all can write your report. I'm telling you what happened. And I'm trying to be as forthcoming as I can be.

Q. Any other part of that you want to tell us about because I'd like to ask you a few questions if you've given us all the context that you feel is relevant?

A. That's the context that I recall.

Q. Is there anything else?

A. I don't know, there may be. I'd have to hear the tape to --

Q. Which tape would you like to hear, sir?

A. The one you haven't gotten, apparently because she's refused to produce all the tapes.

Q. What would it tell us, sir? What would it tell us?
Q. What time does she leave the office?
A. I don't know. Back at that time there were different flex schedules. I don't know.

Q. In that first conversation where you said you can draw the line, what was Ms. Grimes' response to that?
A. Which conversation are we talking about?
Q. When you said, I can draw the line?
A. Are you talking about the Rosa Mexicano?
Q. Well, you said that was the first conversation where you had the --

A. Which conversation are you talking about?
Q. So you said the first time you talked about attraction was at Rosa Mexicano, right?

Setting up the expectations and discussing -- did you tell her then also that you knew how -- you knew where to draw the line?
A. Yes, Yeah.
Q. What was her response?
A. She said, great. I mean, you know --
Q. Okay. Did she ever say that the statements you've made to her, to Ms. Grimes, ever made her feel uncomfortable?
A. Yeah, she said that. But she -- you notice at the end of that statement she was very clear that if she had done something to give me that impression, she did not intend to. And that was really, from my perspective, the key part of what she was saying, because she was saying, clearly, you know, you've misinterpreted -- my suspicions were not well-founded. And, actually, I was relieved, to be quite honest, because, you know, I have no interest in shadowing something.
Q. So I'm clear, that's what made her feel uncomfortable?
A. I have no idea, you'd have to ask her. I think the tapes will speak for themselves, which is

why I was going to sit here and look at your colleague there until you all get the tapes before I made anymore comments about them.

Q. Again, when you said, much to your disappointment after you made the comment about you know how to draw the line. What did you mean by much to your disappointment?
A. That was a joke, and she laughed, which -- and I laughed because she knew I was joking.
Q. You were joking about?
A. About if she thought I had any kind attraction to her.
Q. Physical or sexual attraction?
A. Right.
Q. You mentioned a lot earlier that in the same conversation, actually, on the -- if we agree that's on November 2016, that you had been talking to

A. I'm sorry.
Q. You were talking to about
A. In the position?

A. I'm so sorry.
Q. Did you ever consider posting it for a position?

A. Well, yes, but I thought after I had been in the position for awhile, if he wanted the position, he would be the logical person to get it, whether I went through a posting or whether I didn't go through a posting. Whether I just -- because I had the authority to make that appointment. I can shift executives -- existing executives around. I have that authority. I have not done it, but I do have the authority to do it. And so -- but has indicated on
RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR MELVIN L. WATT

NOVEMBER 26, 2018

EXHIBIT 4

Part 3 of 3
Redactions on this page concern individuals who are not subjects of the investigation. The text is redacted to protect their privacy and their input during the deliberative process.

Q. So I think you have the transcript of the recording, but we can also put it as an exhibit.

That first page of the conversation. So Ms. Grimes, says: Is there, I mean, either position seems, from my perspective, I think to be qualified for. What other position was she -- what were you discussing with her?

A. I think she probably thought she would be qualified to bid for the CIO position. I couldn't have appointed her to that position, she would have had to bid for it. And that was one of the things that I was saying to her, I'm trying to get her to bid for it. So she thought she would be qualified for that position. And the other position, as I recall, was the chief of staff position. So that's -- if you get the rest of the transcript or the recording, I think you'll see what the positions were.

Q. So you thought she was qualified to be in the chief of staff or chief operating officer?

A. No, she thought she was qualified. This is her saying, I mean, either position seems, from my perspective, I think I would be qualified for either position. So it was clear that she thought she was qualified. And I thought she would be qualified to be considered for either position. Now, whether she would get either position would be a function of who else was being considered. So, yeah.

Q. That was discussed with the IG's office. So, anyway, we have been looking at a few different scenarios. I wanted to move really came in wanting to be chief of staff, but she's found a different niche, and she wants to do more policy stuff rather than stuff.

A. Can I give you a copy of the court reporter?

Q. Yes, that was one of the options we looked at.

Q. This might be part of the recording that you were talking about, I can play the recording or we can look at the transcript. This is part of that same --

A. Can I give you a copy of the court reporter?

Q. So you thought she was qualified to be in the chief of staff or chief operating officer?

A. Probably with Ms. Grimes, or in my mind I don't know who I discussed it with. But that was at least one of the options that we were looking at to try to bring you into the IG's office, and that would have put you in line to become chief of staff. So, yeah, that was one of the options we looked at.

Q. So, that is true. It's not a secret. It is not a secret to the IG. It is not a secret to Ms. Grimes. It is not a secret to Simone. It is not a secret to the IG's office. And in the meetings that we have to meet directly with the IG, Simone was regularly, she

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Q. So given the conversation with Ms. Grimes about the [b](6);[b](7)(C) would you say that you thought she had potential to be an executive?
A. I think she would certainly have had the qualifications to be considered for those positions. Every one of them other than the chief of staff would have had to be a competitive position. And I probably would have made the chief of staff a competitive position. The only reason I didn't make it competitive when I hired [b](6);[b](7)(C) was because she was basically a political appointee. She was a political appointee. So I didn't have to go through -- but if I were filling that position with internal people or somebody from inside, I would bid it, yes. I would definitely have required people to compete for it. And I would have thought that Ms. Grimes would have been one of the people who, if she applied, would be considered because of her PMO background and the similarities of some of the duties.

Q. Were there any other positions that you discussed with Ms. Grimes?
A. I don't recall having any other discussions about any other positions.

Q. And you conclude that Ms. Grimes had the qualifications to compete for these positions based on your interactions with her?
A. Based on my observations in the division of conservatorship meetings, based on the job that everybody was saying she was doing with the Project Management Office, based on my own observations of her, yes. I mean, she -- that wouldn't have guaranteed her the job, don't get me wrong, but she certainly would have been one of the people who I would have thought would have been a viable candidate for the positions.

Now, you know, the problem with [b](6);[b](7)(C) position, to be quite honest, I mean, I don't think I had this discussion with her. If she was competing for [b](6);[b](7)(C) position, there would probably be multiple existing executives who would want that position. She would have been competing with [b](6);[b](7)(C) you know. And so no way a level 15 position. And I can tell you, if I was filling that position internally as opposed to bringing somebody in from outside as a political appointee, which is what we did with [b](6);[b](7)(C) I can assure you, I would not have disrupted my organization and had a bunch of people unhappy without going through the process.

Q. Did you have any discussions with Ms. Grimes about her interest in becoming an executive when you approved [b](6);[b](7)(C) request for a new executive position in OCOO?
A. I assumed she was going to apply for the position when he created it, but -- and she did apply. But I didn't know who the -- who the recommended candidate was, interestingly enough, until the Inspector General told me that she was the unanimous choice. And I didn't know up until that point that she had become the unanimous choice.

Q. Did you have any discussions with Ms. Grimes when the job was announced about that position?
A. No, I think I tried to stay away from that because I didn't -- I really didn't want any
1. A. Well, it's only speculation, and I can
2. only speculate based on what I've heard on the tape.
3. 2. But when somebody gets to the point, and says, my
4. lawyers think this is a good strategy, which is what
5. said she on the tape -- and I'm going along with my
6. lawyers. I mean, the only conclusion I could reach
7. is what her lawyers thought by adding this
8. sexual harassment allegation is going to somehow
9. enhance the value of her claim. But I don't know
10. that. I mean, I'm just telling you what my
11. conclusion was based on your hearing what she said to
12. me in that phone conversation.
13. Q. So to go back to earlier about the
14. attraction -- your conversation about attraction and
15. that it was about friendship, not sexual or physical
16. attraction. So at any point in time did you have a
17. physical relationship with Ms. Grimes?
18. A. No, she's testified about that. She's on
19. record -- look at page -- I quoted to that the
20. committee. I think it's on page 45 of the where
21. she specifically says, no groping, no hand-holding,
22. no touching, no kissing, no sexual relations of any
13 days, and I just didn't want you to be sitting by
the phone waiting on somebody to call you about it.
And it was in that conversation that she indicated to
me that either she had or was in the process of
filing a sexual harassment claim. And at that point
I cut off the discussion completely. And that is a
very interesting conversation.
Q. Right. You just said that you told her she
14. got the job and that was reaching out to her, if I recall correctly, from the May 8
15. call?
16. A. Yeah. I told her the process was going to
17. start again, it still had to come to me to sign off
18. on it. And to tell you how much I went out of way to
19. avoid any appearance issues. And once she told me
20. she had filed these charges, when the file came to
21. me, I immediately delegated it -- the decision to
22. Did you have a letter now, and I think we're going to be able to make that phone conversation.
18. A. No, she's testified about that. She's on
17. have any real personal knowledge of that even at that
time.
19. And then I called her back two days later,
20. and said to her, I may have misled you on the time
21. that this -- that this thing will move because now
22. that I've got the letter, it says we got to wait
10

Washington, DC
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1. appearance issues. I kind of sensed that
2. November 2016 meeting, I mean, you know, I've seen
3. Simone around, you know, comment on her shoes. She's
4. a big shoe person. We always joking about her shoes.
5. You know. But aside from that, I haven't seen a lot
6. of Simone since November of 2016. I'm not saying I
7. haven't seen her at all, and there wasn't any reason
8. for me to go seeking her out.
9. I did call her after the investigation
10. was -- the investigation of the hotline complaints
11. found no impropriety, I called her, and said, hey, we
12. have a letter now, and I think we're going to be able
13. to start the process. But even then -- at that
14. point I think in that conversation, I think that be
15. the May 8 conversation, I said, I have been advised
16. that you were the selected candidate. But I didn't
17. have any real personal knowledge of that even at that
18. point.
19. And then I called her back two days later,
20. and said to her, I may have misled you on the time
21. that this -- that this thing will move because now
22. that I've got the letter, it says we got to wait
10

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11

10/11/2018

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confused me at first, because she was saying that this conversation that we had about the PMO office was in 2016, it was actually in 2015.

Q. You mean the conversation about the PMO --

A. The one over in southeast.

Q. Right. Your very first conversation. You said 2015?

A. It was 2015, it was not 2016. And she was also very mistaken about -- I'm just free-flowing now. I'm trying to help you-all's investigation.

She's also mistaken about the date of leaving the agency. That was in 2014. She says it was in 2015. It was actually because -- and the reason it confused me is because I knew that on the date she said whatever conversation took place, which I think was the day that I said to her, do the memo, or maybe I had already told her to do the memo, and I said, let's have a discussion about the memo. But she's a whole year off on that equation, because the day she says that conversation took place, the conversation -- the conversation itself what she says is inaccurate, but the date is also inaccurate, because I was on a train to New York on the date that she says that conversation took place.

Q. This is the conversation where she says you approached her and said there is an attraction -- an attraction that you need to explore?

A. Yeah, she says that's what the conversation was about, but I don't believe that was what the conversation was about at all.

Q. So what was it?

A. I approached her, and said, either do the PMO memo or we need to have a discussion about the PMO memo that you've already done. And it must have been -- let's arrange to have a discussion about the PMO memo so that I could understand more about what the PMO office does. But there was not any kind of discussion about any kind of attraction in that meeting. That was 2015.

Q. I think she said September 2015 was --

A. It was September 2014. Go back and -- I can help you because I tried to put the time line together myself. I'm trying to find the actual documents. Yeah, I got them.

Q. Uh-huh. Yes. Announcement for

MR. PARKER: Can we have a copy of that because if we talk about it, I think it would be helpful to anybody reading the transcript to have it as an exhibit.

THE WITNESS: I assume you all would recover it from your document search, but I'm happy to give you a copy of it.

MR. PARKER: That would be wonderful.

THE WITNESS: And with that -- and put it in the record -- I can give you a copy of that, too, which says that on that date in 2015, I wasn't even in the office. So I know that conversation didn't take place. So, yeah, I would be happy to make a copy of it for you.

MR. PARKER: Do you want to give it to me and I'll put a sticker on it. I'll put a sticker on it and put it in the record, if that's all right.

THE WITNESS: Yeah. Well, I don't want a sticker on -- let me make a copy of it. I'll run up there quickly and make a copy of it.

MR. PARKER: I appreciate that, sir.

Thank you very much. So we are going to mark, ma'am, next both the (Exhibit No. 11 was marked for identification.)

THE WITNESS: Are we finished?

MR. PARKER: I'm thanking you for the exhibit.

THE WITNESS: I thought you were saying --

BY MS. CHOI:

Q. You said earlier --

A. I thought that was a pretty abrupt ending.

Go ahead.

MR. PARKER: Thank you for the exhibits.

BY MS. CHOI:
Q. You said you had other mentees at FHFA?
A. Yes.
Q. Others that you had invited to your home?
A. Yes.
Q. Could you identify some of these mentees?
A. The one that I have probably the closest relationship with is [b](6);[b](7);[c]
We regularly play golf together. I don't know if he's been to my condo here, but he's spent the night at my house in Charlotte, and has been to my home in Charlotte on more than one occasion. So that's probably the closest one.
I mentored six kids, one of whom is the son of [b](6);[b](7);[c] and five of his high school graduating classmates, the first year I got here.
And [b](6);[b](7);[c] asked me if I would just sit and talk to them. I said, sure. Bring them up here and we'll have lunch. So we had lunch. And lo and behold, four years later, five of the six came back, getting ready to graduate from college, and we had another session.
So, you know, [b](6);[b](7);[c] and I have been, you know, I think I consider her a mentee.
Q. Has she been to your home?
A. No, but I invited her to come to my home.
She was actually there last weekend for -- she was in Charlotte for a Facilitates Management Convention that was taking place, and I invited her to come.
She wasn't able to come, but I invited her.
Q. Any other female mentees that have been to your home or met you at your home in D.C.?
A. No. Well, the person who was over the -- what [b](6);[b](7);[c] last name was over the tech group has been to my home. And we played golf together, [b](6);[b](7);[c] played golf -- I'll have to -- I can't remember her last name.
Q. [b](6);[b](7);[c] is her first name?
A. [b](6);[b](7);[c] is her first name.
Q. But she was at my condo to set up my home computing capabilities with the office, not in kind of a -- at that time, I mean, it was just work at that time, but she's been there before.
MR. PARKER: Did you mentor her sir? I just want to make that clear, you are her mentor, is that right?
THE WITNESS: No. No. Well, in a sense that we have played golf together and she's given me advice about tech stuff. And I've talked to her about -- she actually left the agency there, she retired, and I talked to her at that point about her future plans, and where she was moving to. So I wouldn't necessarily characterize it as an ongoing mentoring relationship, no.
BY MS. CHOY:
Q. So no one else. No other female mentees have visited your home in D.C.?
A. No.
Q. Should I have her mark it?
MR. PARKER: Can you mark it. I'll give you the original, sir you should give the court reporter back the exhibits. You're done with, sir.
THE WITNESS: A and B. These are not mine, that's what I'm getting confused about. What is mine and what is yours? I guess --
MR. PARKER: You can take them back.
Those were just for your convenience while we asked questions.
Q. So this exhibit, the first page is a copy of the contact information. Is that your personal cell phone number?
A. Yes.
Q. And the next two are copies of text messages, exchanges between you and Ms. Grimes. The first one is dated January 4, 2017?
A. Uh-huh.
Q. It shows that you had a communication about -- Ms. Grimes reached out to you to schedule a meeting to chat at 2:30 p.m., and you said, okay.
A. Wait a minute. Let me make sure I'm at the same place you are. Mine says --
Q. Ms. Grimes --
A. 8:37 a.m. Is that not the one --
Q. Yes. So that's when the text exchange begins. So it was January 4, 2017, 8:37 a.m.
A. Okay.
Q. Right. And the first text comes from Ms. Grimes where she says, Happy New Year. Do you have time to chat today? And your response: Sure. Any time after noon probably would be better. She says: Does 2:30 work. And you say: Okay. Great. Thanks.
Q. Do you recall having that meeting with Ms. Grimes, this is the January 2017?
A. I don't have any recollection of it, but obviously we had this exchange. I hope you get the recording of it.
Q. So when she reaches out to have meetings with you, do you put it in your personal calendar?
A. No. I don't have a personal calendar. I don't have any calendar other than the official calendar. I don't keep a personal calendar.
Q. The next one is dated May 25, 2017, it starts at 9 a.m.
A. Uh-huh.
Q. So you can see it in the next page as well. And Ms. Grimes says: We should have a conversation. Your response was: Stop by after the CC meeting this morning?
A. Uh-huh.
Q. She tells you she's not in today, and that she will check your schedule for the -- following the holiday weekend. So do you recall having a meeting with her after that Memorial Day weekend, this is in 2017?
A. I don't recall. I don't recall. No.
Q. So you stated that after November 2016 you didn't see Ms. Grimes as frequently?
A. That is correct.
Q. But you did see her in the office?
A. Yes. Uh-huh.
Q. In addition to the conservatorship committee meetings and the OIG liaison meetings, you did have meetings with her onsite, one-on-one in 2017?
A. Yeah, probably. Yes.
Q. And do you recall what those conversations would have covered?
A. Whatever she wanted to talk about, I wasn't initiating the meetings, so -- I mean, I've told you about the meetings I initiated with her. So whatever she wanted to talk about, I mean, we would talk about.
Q. Any recollection of what some of those topics might have been?
A. I won't read what I wrote. It could have been music. It could have been walking. It could have been automobiles. It could have been travel. You know -- and the timeframes that we had conversations, I mean, I just -- I can't put timeframes on it, but those are the kinds of things that I remember having conversations with her about. I can't tell you the time sequence in which they occurred.
Q. So these were in 2017, did you continue to have one-on-one meetings with her in 2018 or this year?
A. Yes. Not frequently, but yes.
Q. So not frequently as in maybe once a month or once every other month?
A. I don't know that I can put a frequency on it, but if she has all of the recordings, all of them, I encourage you to get them because I don't think you're going to find a lot of them, you know. The one I can tell you about, I mean, I can tell you the ones that I know about specifically, if you want to kind of cut to the chase.
Q. Please.
A. And you probably have -- you probably have text messages or something about those, so why don't I just wait for you to ask your questions. I'll wait on you.
MR. PARKER: Can you give that to the court reporter, Mr. Watt. Thank you, sir.
BY MS. CHOI:
Q. Do you recall something?
A. No, I was trying to put this -- I tried to go back and kind of construct my own timeline. And I was trying to put this into that timeline. But I don't see anything that would allow me to do that.
May 25, 2017. Unlike Ms. Grimes, I was not recording
or keeping a calendar on these things. So, I mean,
I’ve had to go back and try to piece together as best
I can what I remember the sequence of events being.
Q. So when we start turning away from the
2017 text messages, you were starting to talk about
2018?
A. Yeah, but I decided to wait on you all to
get to 2018. I assume you’ll get there, so I’m happy
to answer any questions about it.
Q. Actually, would you give us permission to
retrieve those text messages from your phone?
A. Huh?
Q. Would you give -- you said you delete your
text messages as soon as you’re finished responding
or reading them, we don’t have the 2018 text
messages.
A. I thought you did. I thought they were --
MR. PARKER: We’re talking text messages
on your phone.
MR. PARKER: We don’t have any for 2018.

THE WITNESS: Oh, text messages.
THE WITNESS: There might be text messages.
Maybe phone messages. Do you have phone messages?
MS. CHOY: We have a couple --
THE WITNESS: There weren’t a lot of them
because there wasn’t anything to talk about. I
mean --
BY MS. CHOY:
Q. So what you’re referring to are not text
messages in 2018, you’re saying there were either
phone messages or conversations. I’m trying to
understand what kind of --
A. Right. Right. I mean, I don’t really,
from my own perspective, I delete text messages. I
delete phone messages or phone, you know, my phone
automatically deletes after 20 days phone -- the
phone calls that come in. I don’t even have to
necessarily go back and do that.
MR. PARKER: If we had text messages from
2017 and 2018, would it give us a fuller
understanding of the context of your relationship,
such as it was with Ms. Grimes?
THE WITNESS: No, not from the text

MR. PARKER: What would help us?
THE WITNESS: It would probably give you
an indication of when we had -- when we had
conversations, because typically I don’t either by
phone or text, certainly not by text, strike up a
conversation with somebody. I mean, you know, if
somebody wants to talk to me, either call me on the
phone or come see me. I’m not a big text messaging
guy. You know, I will text, but as you have already
seen, my texts are pretty short. So you’re not --
you know, so what it might give you is an indication
of when there was a conversation, and it might spur
my memory about what the conversation was about. But
I think if what she’s saying is I’ve recorded every
phone -- every conversation we’ve had since 2016,
then the best evidence of that would be the
recordings, which is exactly what I’ve been saying
all along.
I mean -- that’s why I’ve been anxious to
get all of the recordings, because I think if you
looked at this in its totality, it won’t be me

pursuing Ms. Grimes, it won’t necessarily be her
pursuing me either, but it will be her initiating
conversations with me, a lot more than me initiating
conversations with her.

And there won’t be many of either one of
those things, I think, in 2017, 2018. In 2016 there
may be more of them, but after -- there’s just not
much there. Now, if you got phone recordings -- do
you have recordings of anything in 2018?
BY MS. CHOY:
Q. We discussed the May 8th and May 10th
call, right? You have said when you talked to Ms.
Grimes after

In relation to the selection for the new
position. But if there’s any other conversations you
recall, that would be helpful in giving us context,
we’d appreciate you let us know.
A. Well, I think you’re better off -- if she
says she’s got all of the phone conversations and the
conversations we’ve ever had, I think you’re better
off --
MR. PARKER: We don’t have them at this
MR. PARKER: It looks like Ms. Choy might have a question.

MS. CHOY: I do.

BY MS. CHOY:

Q. It's page 2 on the top. So that is the one where the conversation begins. It's highlighted in yellow. I just want you to explain and provide some context to that statement when you say: Is it better to go through a charade process to get you the job or is it better for me just to give you the job?

A. This is about Ms. Grimes. And I've already told you, I told that I thought that if he wanted the job, we could do this, either -- if he wanted the job.

Either we could go through the bid process, which I personally thought was a charade process, would be a charade process, because I thought, if it were up to me, given the fact that by this time he had been in the job for -- when did he get appointed? He was a job over two years, right?[b](6)(b)(7)(C) By this time he had been in the job for two years, right?[b](6)(b)(7)(C)

MR. PARKER: Do you have anything else you'd like to tell us about, sir?

THE WITNESS: No not -- I mean, I have my own timeline.

MR. PARKER: Do you want --

THE WITNESS: I don't think that's relevant to any hotline complaints. I'm certainly prepared to tell the EEO investigators what my sequence -- what I believe the sequence was, but, you know -- I don't think any of this is related to be quite honest, to the hotline complaints were about the creation of the position.

MR. PARKER: They were, sir.

THE WITNESS: Huh?

MR. PARKER: Some of them were.

THE WITNESS: Well, see, I don't know what the hotline complaints were. If you want to ask me questions about what the hotline complaints were, I'll try to answer them. I'm not trying to avoid answering questions, but you know, there's another proceeding going on parallel to this and --

And so you didn't highlight the first part of this sentence. It says, the second question I asked him is: Will you -- is it better to go through a charade process to get you the job, or is it better for me to just give you the job because I don't have to go through a bid process. That is what I had said to Ms. Grimes. So you might do yourself a favor
Redactions on this page concern individuals who are not subjects of the investigation. The text is redacted to protect their privacy.

1 and highlight the first line of that, too, and not
2 just pick up with the second line, because it's clear
3 if you go back up above that we're not talking
4 about Ms. Grimes, we're talking about is
5 going to be interested in this taking this position, and if
6 he is going to be interested in taking the position,
7 then that might open up an opportunity for you to bid
8 for the position that he is vacating.

Q. You were saying charade process because
10 you would have selected him?
A. I felt like -- I felt like from my
12 perspective, two years into this, am I going to go
and start over with
14 mean, you know, I would have been prepared to appoint
15 him to the position without competition. But as it
16 turned out
17
And then because I think you're trying to
22 provide continuity in the agency, and I don't want to

Q. So you're saying that his prior
21 A. 
22 but that's not because there's any legal impediment
24 to him making whatever decisions he should make if he
25 were

Page 159
1 (b)(6);(b)(7)(C)
2
3 and so, yes, I would have been willing to appoint him
4 directly, and I would have been willing, if he had
5 taken the job and wanted to me to go through a bid
6 process, I would have gone through that bid process.
7 I believe that that bid process would have
8 been a charade, but it was all a theoretical
9 discussion at that point because
10 would come back and say
11 Q. But as acting, you said earlier that
12 there's limitations, right, to be able to take
13 certain actions or decisions?
A. There's no limitations
16 about what he should do as an acting
17 person. He can do exactly the same thing as an
18 acting person that he can do as a permanent
19
Q. Given what you just said about maybe the
new director would have a vision of how things should be. The next director could make a call --

A. First I've heard of it. I never heard that before from anybody.

MR. PARKER: So do you have anything else you want to put on the record, sir?

THE WITNESS: No.

MR. PARKER: We don't have any further questions, that's why I asked.

THE WITNESS: No.

MR. FAY: Okay.

MR. PARKER: We'll adjourn.

(Whereupon, at 6:17 p.m. the interview in the above-entitled matter was concluded.)

CERTIFICATE OF SHORTHAND REPORTER

Registered Professional

I, the court reporter before whom the foregoing deposition/interview was taken, do hereby certify that the foregoing transcript is a true and correct record of the testimony given: that said testimony was taken by me stenographically and thereafter reduced to typewriting under my supervision; and that I am neither counsel for, related to, nor employed by any of the parties to this case and have no interest, financial or otherwise, in its outcome.

IN WITNESS WHEREOF, I have hereunto set my and affixed my notarial seal this 11th day of October, 2018.

My commission expires August 14, 2022.

NOTARY PUBLIC IN AND FOR THE DISTRICT OF COLUMBIA
CERTIFICATE OF DEPONENT

I hereby certify that I have read and examined the foregoing transcript, and the same is a true and accurate record of the testimony given by me. Any additions or corrections that I feel are necessary, I will attach on a separate sheet of paper to the original transcript.

Signature of Deponent:

I hereby certify that the individual representing himself/herself to be the above-named individual, appeared before me this 1st day of November, 2018, and executed the above certificate in my presence.

NOTARY PUBLIC IN AND FOR

Washington, District of Columbia

MY COMMISSION EXPIRES: June 30, 2023

Alderson Court Reporting

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RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR MELVIN L. WATT

NOVEMBER 26, 2018

EXHIBIT 5
Transcript of May 10, 2018 Conversation

Watt: As I am now led to believe, both from the IG and the Special Counsel report, apparently you are the designated candidate. I had not even been advised of that because in the middle, or right after the interview process, they stopped the process. So I guess next week they will restart the process and we can, [b](b)(7) can make an offer to you and you can decide whether you’re taking it. So

Grimes: Okay

Watt: I hope you take it and I hope you’ll be back to work, hopefully from my perspective and that perspective, hopefully before the middle of June. But that’s up to you all and I’m sure you can work that out and I’m not trying to micromanage that.

Grimes: So, just so you’re clear, the complaints that they are going to put forward have to do with you specifically.

Watt: Well, I gathered that they must because any kind of work environment situation I guess I am ultimately responsible for ... so, you know...but

Grimes: It’s gonna, I mean, it’s gonna be more specific to kind of advances you’ve made towards me.

Watt: Oh..okay, well, okay well now we’re into a me too situation. So, if you’re pursuing that, I definitely should cut off any further discussions about it because, you know, I think, you could – I don’t want to be in the middle of trying to influence what you’re saying on that, so. You know.

Grimes: Okay, yeah. It was a strategy they were putting forward. So when I contacted you I was trying to rationalize in my own, for myself kind of, the series of events. But I’m just gonna go with whatever their counsel is.

Watt: Well if they feel like that will lead somewhere positive, I mean ya’ll can assess that, but I don’t think I’m free to express any opinion about that because that, that too could be misinterpreted. So these things have to play themselves out and I’m sure you’re getting good legal advice and I’m not trying to give you personal advice that is either confirming or at odds with whatever legal advice you might get on that.
Grimes: Okay.

Watt: I hope to see you back at work at some point and I hope it all works out to everybody’s advantage.

Grimes: Ok thanks.

Watt: Ok, bye.
RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR MELVIN L. WATT

NOVEMBER 26, 2018

EXHIBIT 6
In Observance of Women's Equality Day

Reflections from FHFA Director Mel Watt:

Talk about a woman who has inspired you to cause a lasting impact on your life/career?

You could probably guess that the woman who has inspired me most, and who had the greatest impact on my life, has been my mother. My mother endured the death of both her parents by age 12, gave birth to three hard-headed sons (including me) by age 18, became a single parent by age 23, made sure each of her sons finished school before she got her GED, never let either of us believe that we were poor or couldn't achieve, and pushed all three of us to be successful in life (two of us finished college and got doctoral degrees).

In our little four room house, she taught us values, responsibility, humility, determination, compassion, and just about every other good thing I can think of. Fortunately, and she continues to inspire me every day.

Do you have different considerations when mentoring women or men?

I never recall establishing a formal mentoring relationship with anyone, but I suspect there are a number of people who may consider that I have mentored them, either informally or by example. I suspect all of them, whether men or women, would say that I was tough, honest, blunt, direct and demanding. I hope they would also say I was fair and that I was always pushing them to reach and sustain their highest level of excellence and success with integrity, honesty and patient persistence. One of the greatest joys I have as a former practicing attorney is seeing the large number of lawyers who joined my former law firm after I did (and "trained under me") who later became partners, judges, elected officials, or leaders of non-profit organizations fighting for equal justice under the law. One of the greatest joys I have as a former elected official is seeing former staff members either go to law school and become successful lawyers, or find success in the private or public sector. I feel very proud that at least 10 former members of my staff decided to go on to law school. I also have former staff members who later moved on to take responsible positions at companies in the financial services sector or positions with prestigious lobby shops, other members and Committees in Congress, cutting edge non-profits, in state and local governments, and in the executive branch of the federal government (including a former Secretary of Transportation). While I don't pretend to take credit for all of their success, it certainly makes me proud to know that I had at least some influence on the lives of all these people. I'm equally proud to say that, while I've never stopped to count, I'm confident that well over half of them were women.