Federal Housing Finance Agency
Office of Inspector General

# Management Advisory: Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018

Management Advisory • OIG-2019-002 • March 11, 2019

OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
400 7th Street SW, Washington, DC 20219

March 11, 2019

**TO:** Joseph M. Otting, Acting Director

**FROM:** Marla A. Freedman, Deputy Inspector General for Audits /s/

**SUBJECT:** Management Advisory: Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018

The Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG) received an anonymous hotline complaint (H-18-2916) alleging wasteful spending practices by the Senior Vice President (SVP) of a Freddie Mac business unit. We determined that we had previously reviewed certain allegations in this complaint as part of an administrative inquiry into an earlier hotline complaint and reported the results.[1]

The two remaining allegations claimed that the SVP was exempt from Freddie Mac's Travel and Business Expenses Policy (Travel Policy) and that Freddie Mac wasted monies by paying for an apartment used by the SVP for several days each week. We found no facts to substantiate either allegation. With respect to the Travel Policy, a Freddie Mac official represented to us that the policy applied to the SVP during the review period; our review of reimbursed travel expenses to the SVP did not identify any instance where the policy restrictions were not applied to the SVP. With respect to alleged waste for the rental of an apartment, we found that Freddie Mac was not a party to the lease for his apartment and neither (1) made any payments in connection with the lease nor (2) reimbursed the SVP for any expense related to the SVP's rental of the apartment.

Our requests for documents in connection with this inquiry led Freddie Mac to review its reimbursements to the SVP for his commuting expenses.[2] Freddie Mac determined that the SVP, not the corporation, paid for his regular commuting expenses from his home to Freddie Mac headquarters. From time to time, the SVP changed his normal commute because of business exigencies and he considered those expenses to be business expenses for which he sought

[1] The results of that administrative inquiry are found in *Management Advisory: Freddie Mac's Reimbursement of Certain Employees' Commuting Expenses* (Sept. 6, 2018) (OIG-2018-003).

[2] Freddie Mac's Travel Policy states that commuting or other transportation related expenses for travel between an employee's family home and tax home are personal expenses and not business expenses, no matter how great the distance traveled.

reimbursement totaling more than $8,000, which his manager approved. Although Freddie Mac's Travel Policy requires employees to refund overpayments (such as duplicate payments and credits for refunds) to Freddie Mac, it does not specifically direct an employee to repay reimbursements received by the employee for travel expenses not authorized by the Travel Policy. Where an employee has been reimbursed for expenses not permitted under the Travel Policy, the policy directs the employee to report the reimbursed amount as income on his or her personal tax return.

Freddie Mac advised us that it reported the improperly reimbursed commuting expenses totaling $8,111.21 as imputed income to the SVP and that it will not cover any additional tax liability for this imputed income. Freddie Mac intends to clarify its Travel Policy and to provide additional training to assist administrative staff in distinguishing between business travel and commuting expenses.

A Freddie Mac official explained to us that Freddie Mac will not seek reimbursement from the SVP for the $8,111.21 he received for these expenses. According to that official, Freddie Mac determined that the SVP acted in good faith when he sought reimbursement for travel expenses driven by a business component because those expenses were outside of his normal commuting expenses. FHFA's Division of Conservatorship considered this to be a reasonable determination.

Freddie Mac has been in conservatorship since September 2008. Since that time, U.S. taxpayers, through the Treasury, have invested $71.6 billion into Freddie Mac. FHFA acknowledges that its statutory responsibilities are to "preserve and conserve" the assets and property of Freddie Mac while operating it in a manner consonant with the public interest. FHFA, as conservator, has delegated authority to Freddie Mac for its day-to-day operations and risk controls, including the maintenance and application of the Travel Policy. Freddie Mac recognizes that its obligations as an entity in conservatorship affect the circumstances under which it reimburses employees for travel expenses. The Travel Policy directs that "Employees must be particularly mindful that the company operates in conservatorship and has been entrusted as a steward of taxpayer funds."

We do not question the determination made by Freddie Mac, which FHFA affirmed, that the SVP acted in good faith when he submitted his reimbursement request. However, he was paid for expenses that were not eligible for reimbursement under the Travel Policy. Freddie Mac's existing Travel Policy requires employees to refund any overpayments to Freddie Mac, even where the employee acted in good faith. As Freddie Mac clarifies its Travel Policy, we suggest that it require employees to refund all improperly reimbursed expenses, consonant with its obligations as an entity in conservatorship. In addition, we suggest that training on the clarified Travel Policy be provided to all employees who travel and to managers responsible for approving travel-related reimbursements, not just administrative staff.

We provided a draft to this management advisory to FHFA and received both technical comments, which we considered in finalizing the management advisory, and a written management response. FHFA states in its management response that it will provide this management advisory to Freddie Mac. FHFA's management response is included in the appendix to this memorandum.

**Appendix: FHFA's Response to OIG's Advisory**

# Federal Housing Finance Agency

**MEMORANDUM**

TO: Marla Freedman, Deputy Inspector General for Audits

FROM: Robert Fishman, Deputy Director, Division of Conservatorship

SUBJECT: Draft Management Advisory: *Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018*

DATE: March 5, 2019

---

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft management advisory: *Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018* (Report). The OIG reviewed allegations related to the reimbursement of commuting expenses and an apartment. The review found no facts to substantiate either allegation.

The Report include two suggestions for Freddie Mac to clarify the Travel Policy and to provide training to all employees who travel and managers responsible for approving travel-related reimbursements. We will provide the Report to Freddie Mac.