

REDACTED

Federal Housing Finance Agency
Office of Inspector General



FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees

This document contains redactions of 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).

Management Alert • OIG-2019-004 • March 26, 2019



OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

March 26, 2019

TO: Joseph M. Otting, Acting Director, Federal Housing Finance Agency

FROM: Laura S. Wertheimer, Inspector General

A handwritten signature in black ink, appearing to read 'Laura S. Wertheimer', is written over the 'FROM:' line.

SUBJECT: Management Alert—FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees

Summary

This management alert reports on the results of our inquiry into an anonymous hotline complaint alleging that children of three employees of the Federal Housing Finance Agency (FHFA) were improperly hired for summer internships. Because FHFA's intern hiring season customarily begins during this quarter, we are issuing this management alert to provide FHFA with timely reporting of our findings and recommendations so that it can correct the shortcomings we identified and improve the efficiency of its intern hiring process.

FHFA currently hires college students for paid summer internships through the Pathways Internship Program, a federal government-wide internship program. Although the Office of Personnel Management (OPM) permits a Pathways intern to work in the same agency with a relative "when there is no direct reporting relationship" and the relative is "not in a position to influence or control the Participant's appointment, employment, promotion or advancement within the agency," there are additional legal restrictions on the hiring of relatives. Federal law prohibits (1) federal employees from hiring, or advocating for the hiring, of their relatives, and (2) hiring officials from awarding preference to applicants because they are relatives of employees.

FHFA has a long-standing practice of hiring relatives of Agency employees for summer internships. In 2011, FHFA-OIG Office of Investigations (OI) investigated a hotline complaint alleging improper hiring of summer interns who were relatives of FHFA employees. At that time, OI advised FHFA that it should develop a policy regarding the hiring of relatives. However, we discovered during this inquiry that FHFA never developed such a policy. Our

review of 2017 and 2018 internship hiring determined that two FHFA employees sought to “influence” the hiring of their relatives by advocating or otherwise interceding on their behalf, and that three FHFA employees improperly awarded preferences for summer internships to three relatives of other FHFA employees.

Background

The Pathways Internship Program

By Executive order,¹ President Obama established the Pathways Programs in 2010 to help students and recent graduates overcome structural barriers in competing for entry-level federal civil service positions.² The Executive order established three Pathways Programs: the Internship Program, the Recent Graduate Program, and a revised Presidential Management Fellow Program. On May 11, 2012, pursuant to the Executive order, OPM issued final regulations implementing the Pathways Programs.³

As a participant in the Pathways Internship Program, FHFA hires college students for paid summer internships. The Pathways Internship Program “provides students . . . with paid opportunities to work either part- or full-time in agencies and explore career paths related to their academic fields of study or career interests.”⁴ A Pathways internship also provides a significant advantage in obtaining permanent federal employment: FHFA may convert Pathways interns who successfully complete the program and meet other requirements to permanent positions in the federal civil service without further competition.

Pathways interns are hired under Schedule D of the excepted service, a schedule created by the Executive order, which permits agencies to limit the Pathways applicant pool to students and recent graduates. OPM’s implementing regulations impose various other requirements for participation in the Pathways programs, including the following:

¹ Exec. Order No. 13562, *Recruiting and Hiring Students and Recent Graduates*, 75 Fed. Reg. 82585 (Dec. 30, 2010).

² The Executive order found that “[t]he existing competitive hiring process for the Federal civil service . . . is structured in a manner that, even at the entry level, favors job applicants who have significant previous work experience. This structure, along with the complexity of the rules governing admission to the career civil service, creates a barrier to recruiting and hiring students and recent graduates. It places the Federal Government at a competitive disadvantage compared to private-sector employers when it comes to hiring qualified applicants for entry-level positions.”

³ 77 Fed. Reg. 28194 (May 11, 2012). In addition to the regulations, OPM has issued extensive guidance to assist agencies in administering the Pathways Programs. See OPM, *Pathways Programs Handbook* (Aug. 2016); OPM, *Pathways Toolkit for Hiring Managers and Supervisors* (Aug. 2016).

⁴ OPM, *Pathways Programs Handbook*, at 23 (Aug. 2016).

- Agencies may not discriminate based on race, ethnicity, color, religion, sex, national origin, age, disability, sexual orientation, genetic information, *or any other non-merit-based factor*.⁵
- Agencies must execute a Participant Agreement with each person hired under the Pathways Programs, including interns.

The OPM Pathways regulation governing the hiring of relatives provides:

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

5 C.F.R. § 362.106(f).

Other Restrictions on the Hiring of Relatives in the Federal Civil Service

In addition to OPM’s Pathways regulation, several other provisions of federal law prohibit or restrict the hiring of relatives in the federal civil service. Under federal law, the hiring, or advocating for the hiring, of a relative in the federal civil service is defined as nepotism and Congress has enacted criminal and civil statutes that prohibit it.⁶ In addition, the ethics regulation pertaining to misuse of office prohibits a federal employee from taking any action intended to induce a co-worker to hire the employee’s relative.⁷ Federal law likewise imposes restrictions on hiring officials responsible for deciding whether to hire relatives of fellow agency employees. Ethics regulations require federal employees to “act impartially and not give preferential treatment to any private organization or individual,”⁸ and it is a prohibited personnel practice for a hiring manager to award a preference to an applicant because the applicant is a relative of an agency employee.⁹

⁵ Both the Executive order and OPM’s implementing regulations require that agencies adhere to Merit System Principles when hiring under the Pathways Programs.

⁶ 18 U.S.C. § 208 (criminal prohibition); 5 U.S.C. § 3110(b) (civil prohibition); 5 U.S.C. § 2302(b)(7) (nepotism as a prohibited personnel practice).

⁷ 5 C.F.R. § 2635.702(a).

⁸ 5 C.F.R. § 2635.101(b)(8).

⁹ 5 U.S.C. § 2302(b)(6) (prohibiting preferences not authorized by law).

Although nepotism in the federal government has been prohibited for decades, a June 2016 report issued by the Merit Systems Protection Board (MSPB),¹⁰ *Preventing Nepotism in the Federal Service*, found that the practice persists. According to the MSPB report, entry level and student positions are particularly vulnerable to nepotism.¹¹ The MSPB, in its report, found that nepotism is “a serious offense that strikes at the heart of a merit-based civil service; harmful to the engagement and morale of the workforce; damaging to the ability of an agency to effectively accomplish its mission; and a violation of law.” It can also “cause severe harm to the public’s trust that the Government is free from corruption.”

In recent years, other Inspectors General have found improper hiring of relatives by senior officials in their respective agencies, including by senior human resources officials. These reports, and the June 2016 MSPB report, show that nepotism, unless effectively addressed, can become common practice at a federal agency. The MSPB report contains several helpful steps that agencies can take to mitigate the risk of nepotism, such as requiring selecting and human resources officials to certify that they are unaware of evidence of nepotism, and providing education and guidance on nepotism to employees.

Facts and Analysis

FHFA’s Process for Hiring Summer Pathways Interns

FHFA is an independent agency with a relatively small workforce: as of September 30, 2018, it employed 600 individuals.¹² The Agency has established a process to hire summer interns under the Pathways program. Each year, human resources (HR) officials visit various career fairs to educate students on opportunities in the FHFA internship program. The Pathways internship positions are posted online in the USAJobs system and customarily held open for a five-day period during which students may apply. According to FHFA HR staff, students who provide their resumes at career fairs are emailed a link to the USAJobs posted openings. All interested students must apply for a Pathways internship through USAJobs. HR also sends an email to all

¹⁰ The MSPB is a “bipartisan, independent, quasi-judicial agency whose mission is to protect the Merit System Principles and promote an effective Federal workforce free of Prohibited Personnel Practices.” Merit System Principles, codified in 5 U.S.C. § 2301, constitute the government’s core values for managing the civil service. The first Merit System Principle states, in part, that “[r]ecruitment should be from qualified individuals . . . and selection and advancement should be determined solely on the basis of relative ability, knowledge, and skills, after fair and open competition. . . .” Along with Merit System Principles, Congress has enacted 14 Prohibited Personnel Practices, including prohibitions against nepotism, improper favoritism, and retaliation against whistleblowers. 5 U.S.C. § 2302(b).

¹¹ Because entry-level positions require little, if any, specialized experience, a large cohort of applicants – which may include children of senior agency officials – can meet the minimum qualifications.

¹² See FHFA, *Performance and Accountability Report 2018*, at 7 (Nov. 15, 2018) (online at www.fhfa.gov/AboutUs/Reports/Pages/Performance-and-Accountability-Report-2018.aspx).

FHFA employees notifying them of the internship opportunities and the opening and closing dates for the positions.

We reviewed the Pathways internship job announcements and the HR email notifications for 2017 and 2018. The job announcements state: “[a]ll qualified applicants will receive consideration for employment regardless of race, color, religion, gender, status as a parent . . . or any other non-merit factor.” The notification emails sent to FHFA employees for the internship program during these two years explain: “[i]f a family member is hired, he/she may not report to a family member as his/her supervisor.” No further guidance was provided in the email.

After the internship job postings close, HR officials review the materials and place the qualified candidates on a certification list.¹³ The resumes and cover letters of the qualified candidates are distributed to division administrative liaisons who forward them to hiring officials. The hiring officials determine whether to interview the applicants before making their selections, which are forwarded by the division administrative liaisons to HR staff who process the hiring.¹⁴

After the candidate is selected, HR forwards and requires the candidate to complete form OF-306, which requires new employees to identify, among other things, relatives employed by the Agency. HR staff identifies those interns with relatives at the Agency from the OF-306 forms and provides a list of those names to the HR Director.

FHFA Has a Long-Standing Practice of Hiring Relatives of FHFA Employees for Summer Internships

In 2011, OI investigated a hotline complaint alleging improper hiring of summer interns who were relatives of FHFA employees. OI found that 9 of 32 interns hired for the summer of 2011 were relatives of FHFA employees. At that time, OI advised FHFA that it should develop a policy regarding the hiring of relatives. Our inquiry into the hotline complaint found that FHFA never developed such a policy. One senior FHFA official reported that he attended a 2012 senior staff meeting in which the then-Chief Operating Officer stated that staff might want to review the Agency’s practices regarding the hiring of employees’ relatives for internships. This senior official informed us that he heard nothing further regarding a review of those practices and was not aware that any policy had been developed. He observed that FHFA continued to hire relatives of current employees for its internship program. Another senior FHFA official reported

¹³ To meet the basic qualifications for an FHFA Pathways Internship, an applicant must have (1) completed two years of post high school education; (2) enrolled at least part-time in a degree-seeking program; and (3) maintained a cumulative grade point average of at least 2.5.

¹⁴ 5 C.F.R. § 362.106 provides that “[a]gencies must execute a written Participant Agreement with each Pathways Participant.” Under the regulation, the Participant Agreement must set forth, among other things, a general description of duties, work schedules, the length and termination date of the appointment, mentorship opportunities, and the minimum eligibility requirements for a noncompetitive conversion to a term or permanent position. Despite the regulation’s mandatory language, FHFA does not execute Participant Agreements with interns whose terms are less than 90 days.

that FHFA has a long history of hiring employees' children for summer internships and that the practice is the norm at FHFA. A senior HR official confirmed that FHFA's practices in hiring relatives of current employees for summer internships has not changed since 2011.

In addition to the lack of a policy regarding the hiring of relatives, a senior HR official informed us that HR does not notify employees that they should not advocate on behalf of internship applicants who are relatives with the hiring officials nor does it advise hiring officials that they are prohibited from giving a preference to relatives of FHFA employees when hiring interns.

During our inquiry, we reviewed FHFA's hiring of Pathways interns during 2017 and 2018.¹⁵ Our review of the 2017 and 2018 internship hiring data provided by FHFA found:

- In 2017, FHFA hired 39 paid college interns, 5 of whom (12.8%) were relatives of employees. Interns were paid \$17-\$20 an hour (an annualized salary of between \$36,000 and \$42,000), according to number of years of college completed (sophomore – graduate student).
- In 2018, FHFA hired 27 paid college interns, 4 of whom (14.8%) were relatives of employees. Two of these four were re-hires from the previous year and both were children of senior officials. Salaries increased by \$1,000 for the second internship year.
- Of the seven relatives of FHFA employees who obtained internships in 2017 and/or 2018, five were children of FHFA employees and two were nieces.¹⁶
- The five employee-parents consisted of two executives, one senior employee, and two mid-level employees.
- Two interns, one in 2017 and one in 2018, were relatives of [REDACTED].

¹⁵ The hotline complaint also alleged that a senior FHFA employee improperly hired another employee's relative for an internship in 2016. Our inquiry included this allegation. We found insufficient evidence to support the allegation. An FHFA employee reported to us that another employee, the relative of the intern, asked him during the 2016 intern hiring season whether he was hiring summer interns. Although he told us that he did not think the employee was advocating for her relative, he recalled that her question prompted him to tell his direct report, who was conducting the hiring, that the direct report was under no obligation to hire the employee's relative. That direct report hired the employee's relative that summer. We did not interview the direct report, who retired from the Agency before the start of this inquiry.

¹⁶ None of the related interns hired for the 2017 and 2018 summer programs were converted to permanent employees.

Improper Hiring of Some Relatives of FHFA Employees as Summer Interns

As discussed earlier, the hiring of a relative of a current FHFA employee into the Pathways internship program is not, by itself, prohibited. OPM permits a Pathways intern to work in the same agency with a relative “when there is no direct reporting relationship and the relative is not in a position to influence or control the Participant’s appointment, employment, promotion or advancement within the agency.”

We found that there was no direct reporting relationship between any of the seven individuals who obtained Pathways internships and their relatives. However, we determined that two FHFA employees sought to “influence” the hiring of their relatives by advocating or otherwise interceding on their behalf. We also found that two hiring officials and an employee awarded preferential treatment to relatives of FHFA employees for summer internships.

Advocacy by Two FHFA Employees on Behalf of Relatives Who Were Seeking Internships

To determine whether FHFA employees advocated on behalf of their relatives, we interviewed the employees whose relatives obtained internships and the managers who hired those interns. We also interviewed two division liaisons and several HR employees and reviewed certain email communications between the FHFA employee-parents and the hiring officials.

We found seven interns hired during 2017 and 2018 who were related to FHFA employees. We asked all seven FHFA employees whether they sought advice from FHFA’s legal division or its ethics office to understand the prohibitions around the hiring of a relative. Each reported that he or she did not.

For the seven interns hired during 2017 and 2018 who were related to FHFA employees, we identified two instances (29%) in which an employee advocated or otherwise interceded on behalf of his or her relative.

The first instance involved Employee 1, the [REDACTED], whose relative was hired by the [REDACTED] for an internship in 2018. A senior [REDACTED] official reported to us that [REDACTED] employees were required to recuse themselves from working on matters involving their relatives. Employee 1 explained that she notified [REDACTED] at an initial meeting for the 2018 internship program that her relative was applying and that she would recuse herself. She further recalled that she announced at this meeting that another [REDACTED] employee would [REDACTED] and manage the day-to-day responsibilities. However, we found that Employee 1 did not completely recuse herself from [REDACTED]

Employee 1 reported to us that she was unaware that she was prohibited from advocating for a relative's employment with fellow FHFA employees. She acknowledged that she emailed her relative's resume to [REDACTED] liaison, and that email, sent 15 days before [REDACTED] selected her relative for the internship, stated, "[t]hank you so much!" Employee 1 also recalled that she asked someone from FHFA's [REDACTED] to consider hiring her relative for an internship during the 2018 selection process.

Another employee reported to us an additional effort by Employee 1 to obtain an internship for her relative during the 2018 selection process. Specifically, this employee recalled that she was asked by Employee 1 to ask a [REDACTED] manager whether he would be willing to hire Employee 1's relative for an internship, which she did. That [REDACTED] manager did not select Employee 1's relative. Ultimately though, Employee 1's relative was selected both by [REDACTED] and by [REDACTED]. Because [REDACTED] had made its selection several hours before [REDACTED], her relative was assigned to work at [REDACTED].

In another instance, Employee 2 sent an email to an [REDACTED] employee on behalf of his relative who was seeking a [REDACTED] internship in 2018 with [REDACTED]. The email reported that his relative was "a little nervous" and asked, "let me know what is [REDACTED] status and when [REDACTED] might get a call? [REDACTED] is eagerly looking forward to [REDACTED]." Subsequent to this email, his relative was hired for [REDACTED] internship. In our view, this email could reasonably be understood to reflect an effort by an FHFA employee to intercede on behalf of his relative.

Two FHFA Hiring Officials and an Employee Afforded Preferential Treatment to Three Relatives of FHFA Employees Who Were Seeking Internships

We also assessed whether, in 2017 and 2018, FHFA employees afforded preferential treatment in hiring relatives of FHFA employees. We found evidence of preferential treatment in the hiring of two interns in 2017 and one in 2018.

We asked the two hiring officials and employee whether they received any guidance on the hiring of relatives of FHFA employees. Each reported that he or she did not. In addition, none reported seeking guidance from FHFA's legal division or its ethics office to understand whether a hiring preference could be given to relatives of FHFA employees.

Preferential treatment in 2017 hiring

We found that Hiring Official 1 engaged in preferential treatment in hiring the relative of a colleague in the same division for a 2017 internship. Employee 3 reported to us that he felt "bummed out" in the late stages of the 2017 selection process because his relative had applied, but had not yet been selected, for an FHFA internship. He explained that, during a conversation with Hiring Official 1 (with whom he spoke regularly and had known for 15 years), Hiring Official 1 asked after Employee 3's relative, and Employee 3 replied that it looked like his

relative would not be selected for an FHFA internship that year. Hiring Official 1 recalled a conversation with Employee 3 about his relative and confirmed that, subsequent to it, he hired the relative as an intern. Hiring Official 1 claimed that he did so because Employee 3 was [REDACTED], and he assumed that [REDACTED] FHFA documents and emails show that a different intern had been selected by Hiring Official 1's office on [REDACTED], but was replaced by Employee 3's relative on [REDACTED].

Hiring Official 1 reported to us that he was never provided with any guidance on the rules governing the consideration and hiring of relatives of FHFA employees. He explained that he was unaware of the prohibition on providing a preference to employees' relatives when hiring for internship positions. According to Hiring Official 1, his observations, over a period of years, led him to conclude that the Agency has a long history of hiring employees' children and that this practice is the norm at FHFA. Based on this history, he assumed that the Agency did not consider the hiring of relatives of current employees to be improper. He recognized that it was probably easier for an applicant related to an FHFA employee to land an internship at FHFA than an unknown applicant, and opined that he did not think that was wrong.

In the second instance, we determined that Hiring Official 2 awarded preferential treatment to the relative of Employee 4 and hired the relative for a 2017 summer internship. Employee 4 reported to us that, during a discussion with Hiring Official 2, Hiring Official 2 asked Employee 4 to have his relative forward [REDACTED] resume. According to Employee 4, he and Hiring Official 2 had previously discussed their relatives so Hiring Official 2 knew that Employee 4's relative was in college and what the relative was studying. Employee 4 recalled that he gave his relative Hiring Official 2's contact information and left it to his relative to decide whether to send on [REDACTED] resume.

Emails reflect that Employee 4's relative emailed [REDACTED] resume to Hiring Official 2 on [REDACTED], more than one month before FHFA posted the position, and that the relative later applied for the internship through USAJobs. On February 21, 2017, four days after the position closed, Hiring Official 2 sent an email to his division liaison asking whether Employee 4's relative was "on the list" of qualified candidates – those who applied for an FHFA internship through USAJobs and met the minimum qualifications. On March 20, 2017, HR circulated the qualified candidates' application materials to the division liaisons and the division liaison for Hiring Official 2 notified HR that Employee 4's relative had been selected for an internship.¹⁷

In this instance, Hiring Official 2 reached out to a fellow FHFA employee and asked for the resume of his relative for an FHFA internship position, prior to the announcement on USAJobs.

¹⁷ According to Hiring Official 2, he uses a referral system for his internship hiring, and each of Hiring Official 2's 2017 and 2018 interns were hired from the same university through this referral system, except for Employee 4's relative. Hiring Official 2 told us that he never asked anyone whether his referral system for hiring interns was permissible.

Because Hiring Official 2 only considered applicants who were personally referred or known to him, he did not consider the other applicants on the certificate list.¹⁸

Preferential treatment in 2018 hiring

We found that the relative of Employee 1, discussed earlier, who was hired as a 2018 intern by [REDACTED] received preferential treatment from a junior [REDACTED] employee. FHFA records show that a hiring official in [REDACTED] delegated the intern selection decision, with no guidance, to this junior [REDACTED] employee [REDACTED]

[REDACTED] ¹⁹ Email traffic shows that the junior [REDACTED] employee selected Employee 1's relative – [REDACTED] – within 78 minutes of receipt of 236 pages of resumes and cover letters. Although this junior [REDACTED] employee asserted that he was looking for interns with college grade point averages (GPAs) of 3.3-3.5, the resume for Employee 1's relative did not include a college GPA.²⁰ This junior [REDACTED] employee acknowledged that he did not read all the resumes, even though he specifically represented to his boss that he had. We did not find his explanations for failing to select candidates with stronger resumes to be persuasive.

Findings

1. FHFA has a longstanding practice of hiring relatives of current employees for summer internships. While federal law permits the hiring of applicants who are related to agency employees, that permission has clear caveats: the employee cannot advocate for or otherwise attempt to influence the hiring of his or her relative or be in a direct reporting relationship with the relative; and preferential treatment may not be given by another agency employee in hiring the relative. In 2011, OI found that FHFA lacked a clear policy regarding the hiring of relatives of Agency employees. Eight years later, we found that FHFA has not adopted the guidance necessary to promote full compliance with laws and regulations to prevent

¹⁸ In addition, our document review revealed that Employee 4's relative failed to disclose the relationship with Employee 4 in [REDACTED] OF-306 form, which [REDACTED] certified as true and correct. HR officials informed us that they learned of this omission during [REDACTED] internship but did not ask [REDACTED] to complete a corrected disclosure.

¹⁹ The [REDACTED] employee acknowledged that, [REDACTED], he became acquainted with the [REDACTED] whose relative he selected for the 2018 internship. Although it was part of Employee 1's job to handle [REDACTED].

²⁰ The [REDACTED] employee told us he mistakenly concluded that the high school GPA ([REDACTED]) shown on the resume of Employee 1's relative was [REDACTED] college GPA. The applicant's actual college GPA of [REDACTED] was below the [REDACTED] average GPA of the successful undergraduate candidates in 2018. Although omitted from the applicant's resume, [REDACTED] college GPA was included on [REDACTED] transcript that was submitted to HR and reviewed by one or more HR employees [REDACTED].

employees from advocating on behalf of their relatives and prohibit preferential treatment in the hiring of applicants related to Agency employees.

2. In 2017 and 2018, FHFA notified its employees annually of paid summer internship opportunities. However, these notices failed to inform employees that: (1) they shall not advocate for the hiring of their relatives; or that (2) they shall not award a preference to an applicant because the applicant is a relative of an FHFA employee. We found that those prohibitions were not known by some FHFA employees whose relatives were hired for internships in 2017 and 2018 or by hiring officials found to have awarded preferential treatment.
3. FHFA is a relatively small federal agency with 600 employees as of September 30, 2018. In an agency of this size, an email from one employee to another explaining that his relative was “a little nervous” about [REDACTED] internship application and asking, “let me know what is [REDACTED] status and when [REDACTED] might get a call?” could reasonably be understood to be an effort by that employee to intercede on behalf of his relative, which is not permitted under existing federal law. We found no guidance from FHFA that explains the scope of the prohibition on advocacy on behalf of a relative seeking employment.
4. For internships awarded during 2017 and 2018, we found two FHFA employees who advocated for or otherwise interceded on behalf of their relatives who sought FHFA summer internships. For those two years, we also identified two FHFA hiring officials and an employee who engaged in preferential treatment in hiring the relative of an FHFA employee. We found that none of the Agency employees whose relatives were hired as interns in 2017 and 2018 sought advice from FHFA’s legal division or its ethics office regarding any limitations on the hiring of a relative of an Agency employee. Nor did the hiring officials or employee who awarded preferential treatment report that they sought similar guidance.
5. Applicable regulations instruct that “[a]gencies must execute a written Participant Agreement with each Pathways Participant.” We found that FHFA does not follow the regulations and only requires interns with terms longer than 90 days to execute such agreements.
6. One hiring official relied exclusively on a referral system to select summer interns and all of his 2017 and 2018 interns were hired from the same university through this referral system (save for the one relative of another FHFA employee who was awarded preferential treatment). This exclusive referral system for the hiring of interns appears to award an improper preference to applicants from that university, and this hiring official acknowledged that he never sought guidance on the propriety of this system.

Conclusion

In 2011, we found that 9 out of 32 FHFA summer interns were relatives of Agency employees and advised the Agency to develop a policy regarding the hiring of relatives. FHFA never developed such a policy and the practice of hiring relatives of FHFA employees as summer interns has continued at such a level that it was described as a “norm” by a senior FHFA official. For 2017 and 2018, we identified two instances in which FHFA employees – [REDACTED] – advocated for or otherwise interceded on behalf of their relatives who were seeking paid summer internships at FHFA, and we identified three instances in which FHFA hiring officials and an employee awarded preferential treatment to relatives of their fellow employees.

Recommendations

We recommend that FHFA:

1. Develop, implement, and circulate to all FHFA employees a written policy to promote compliance with laws and regulations regarding the hiring of relatives of agency employees, including for summer internship positions. That policy ought to clearly explain the scope of the prohibition on advocating or otherwise interceding on behalf of a relative and on preferential treatment in the hiring of a relative of an Agency employee.
2. Provide training on the operation of that written policy, with examples, to educate FHFA employees on the limitations on the hiring of relatives.
3. Reinforce the written policy on the hiring of relatives in the annual email to FHFA employees about summer internship opportunities.
4. Require written certifications from hiring officials and HR officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee, in which each official certifies, to the best of his or her knowledge:
 - a. After reasonable inquiry, there is no evidence that an FHFA employee advocated or otherwise interceded on behalf of a relative for a summer internship position;
 - b. After reasonable inquiry, there is no evidence that the hiring official provided preferential treatment to a relative of an FHFA employee for a summer internship position.
5. Execute Participant Agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.

6. Determine the appropriateness of the exclusive referral system established and relied upon by an FHFA hiring official.

FHFA Comments and OIG Response

We provided a draft of this management alert to FHFA and received both technical comments, which we considered in finalizing the management alert, and a written management response. In its management response, which is included in the appendix to this memorandum, FHFA agreed with our recommendations. In response to recommendation 4, FHFA committed, among other things, to require HR officials to “certify that they did not advocate or intercede on behalf of a relative for the selection of a summer internship position if a relative has applied and been found qualified for a position.” After receiving FHFA’s management response, we followed up with FHFA with respect to the HR certification, and the Agency agreed to the following additional HR certification:

The HR Director, or his/her designee will certify, after reasonable inquiry, that they are not aware of an FHFA employee advocating or otherwise interceding on behalf of a relative for a summer internship position with FHFA.

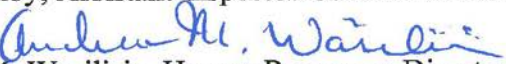
Appendix: FHFA's Response to OIG's Alert and Recommendations



Federal Housing Finance Agency

MEMORANDUM

TO: Angela Choy, Assistant Inspector General for Evaluations

FROM: 
Andrew M. Wasilisin, Human Resources Director, Office of Human Resources
Management (OHRM)

SUBJECT: Response to the Management Alert: *FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees*

DATE: March 18, 2019

Thank you for the opportunity to review the draft management alert: *FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees* (Report). This memorandum provides management's response to the recommendations included in the Report.

Recommendation 1: *Develop, implement, and circulate to all FHFA employees a written policy to promote compliance with laws and regulations regarding the hiring of relatives of agency employees, including for summer internship positions. That policy ought to clearly explain the scope of the prohibition on advocating or otherwise interceding on behalf of a relative and on preferential treatment in the hiring of a relative of an Agency employee.*

Recommendation 2: *Provide training on the operation of that written policy, with examples, to educate FHFA employees on the limitations on the hiring of relatives.*

Recommendation 3: *Reinforce the written policy on the hiring of relatives in the annual email to FHFA employees about summer internship opportunities.*

Recommendation 4: *Require written certifications from hiring officials and HR officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee, in which each official certifies, to the best of his or her knowledge:*

- a. *After reasonable inquiry, there is no evidence that an FHFA employee advocated or otherwise interceded on behalf of a relative for a summer internship position;*
- b. *After reasonable inquiry, there is no evidence that the hiring official provided preferential treatment to a relative of an FHFA employee for a summer internship position.*

Recommendation 5: *Execute Participant Agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.*

Recommendation 6: *Determine the appropriateness of the exclusive referral system established and relied upon by an FHFA hiring official.*

FHFA Response: FHFA agrees with the recommendations and will take the following actions by February 1, 2020, before implementing the 2020 FHFA Pathways Internship Program.

1. OHRM will update the Employment and Placement Policy (Policy No. 118) to include a specific section on hiring interns. Policy No. 118 covers all hiring actions and legal authorities used by FHFA when making hiring decisions. It also articulates the Merit Systems Principles and Prohibited Personnel Practices that address nepotism and unauthorized preferences. In addition, a nepotism policy will also be developed the Office of General Counsel.
2. FHFA will provide training on nepotism, advocacy for relatives, and unauthorized preferences as described in the draft IG report.
3. FHFA will reinforce the written policy on the hiring of relatives in an annual email to FHFA employees about summer internship opportunities.
4. FHFA will require written certifications from hiring officials and HR officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee.
 - a. The hiring official will certify that, after a reasonable inquiry, they did not provide preferential treatment to a relative of an FHFA employee based on his or her relationship, and that they did not advocate for nor are they aware of an FHFA

employee advocating or otherwise interceding on behalf of a relative for the selection of a summer internship position.

- b. HR officials will certify that they did not advocate or intercede on behalf of a relative for the selection of a summer internship position if a relative has applied and been found qualified for a position.
 - c. Furthermore, hiring officials will be required to document and submit their reason(s) for selecting an individual for an internship position.
5. FHFA will execute participant agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.
 6. In the enhancements to Policy 118 above, FHFA will prohibit the use of an exclusive referral system for internships by hiring officials. All considerations for employment in the FHFA internship programs must be through appropriate processes managed by OHRM.

CC: L. Stauffer
S. Dent
T. Koonce
J. Major