Management Advisory:
Allegations Related to
Fannie Mae Senior Executive Spending
on Entertainment, Conferences, and Training
January 2016 through September 2018
The Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG) received an anonymous hotline complaint alleging that Fannie Mae’s Senior Vice Presidents (SVPs) and above (collectively, Senior Executives) are excessively spending government funds on entertainment, conference, and training expenses. Specifically, the complainant alleged that Fannie Mae Senior Executives incurred conference and training expenses greater than $10,000 for single individuals without providing justifications and were routinely granted exceptions to Fannie Mae policy limits to purchase “lavish food and wine.” Further, the complainant claimed that Fannie Mae Senior Executives acted as though the policies and procedures regarding these expenses did not apply to them. This management advisory reports the findings of our administrative inquiry into the complainant’s allegations for the period January 1, 2016, through September 30, 2018 (review period).

Applicable Fannie Mae Policy

Fannie Mae employee expenses for conferences, entertainment, and meals are governed by Fannie Mae’s Business Courtesies Policy and related Business Courtesies Procedure (together, Business Courtesies Policy). Some expenses are not reimbursable under the Business Courtesies Policy: Fannie Mae resources may not be used “to provide golf or other entertainment (including, but not limited to, attendance at sporting events, symphonies, and concerts) to Interested Parties.” Employee attendance at a conference or employee meals or events are reimbursable under the Business Courtesies Policy, provided that Fannie Mae employees exercise caution to ensure such expenses “are reasonable and appropriate and are consistent with

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1 Since September 2008, Fannie Mae has operated in conservatorship, with FHFA as its conservator, and its continued operations were made possible by the $119.8 billion investment by U.S. taxpayers under an agreement with the Department of the Treasury.
Fannie Mae’s conservatorship status” and are not “lavish or frequent in nature.”2 In addition to this general admonition, the Business Courtesies Policy sets a per person per meal dollar limit on meals for Fannie Mae employees or people seeking to do or doing business with Fannie Mae (i.e., “Interested Parties”), which was $125 per person per meal until November 2017, when it was raised to $150 per person per meal. The Business Courtesies Policy also sets an aggregate dollar limit of $2,500 per event.

The Business Courtesies Policy in effect for most of the review period recognizes that, from time to time, exceptions to these limits may be appropriate and establishes a process to be used for each exception.3 Where the per person per meal limit is exceeded, the employee must request an exception in writing and obtain approval from his/her supervisor and Fannie Mae Ethics. Where the aggregate cost of a meal, refreshment, or event is expected to exceed $2,500, the employee must seek written approval from the employee’s SVP. Fannie Mae officials told us that there is no approval requirement if the individual submitting the reimbursement request is an SVP or above (Senior Executive). Fannie Mae Ethics is not required under the Business Courtesies Policy to approve exceptions to the aggregate dollar limit, unless the per person per meal dollar limit is exceeded.

Sponsorships of outside organizations are governed by Fannie Mae’s Procurement Policy. That policy requires that sponsorships must be approved by an SVP or higher.

*Allegation Regarding Senior Executive Conference and Training Expenses Could Not Be Substantiated*

We obtained from Fannie Mae a list of all conference, training, meal, and other expense reimbursements to Senior Executives during our review period to determine whether Fannie Mae Senior Executives were reimbursed for conference attendance and training expenses over $10,000 without justification. That list contained no transactions for conference and training-related expense reimbursements to Senior Executives over $10,000.

Because we recognized the possibility that conference and training expenses for Senior Executives could have been incurred through Fannie Mae’s procurement process, we obtained from Fannie Mae a list of all conference and training procurement transactions exceeding $10,000 during the review period. The list provided by Fannie Mae contained 414 transactions, most of which were training for large groups of Fannie Mae employees, not for individual Senior Executives. We identified 76 transactions on the list that were coded as “event.” Of those 76 transactions, we sampled 16 of them to determine whether any were for Senior Executive conference or training and obtained documentation for each from Fannie Mae. We also selected

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2 As defined in the policy, business courtesies are entertainment, gifts, gratuities, or anything of value provided by or to one or more employees for which fair market value is not paid by the recipient. Business courtesies may be tangible or intangible benefits such as meals, drinks, recreation, prizes, transportation, lodging, discounts, promotional items, or use of the donor’s time, materials, or facilities.

3 In November 2017, Fannie Mae raised its $125 per person meal limit to $150. Additionally, the Business Courtesies Policy was amended to specifically require that exceptions be approved by Fannie Mae Ethics.
and obtained documentation from Fannie Mae for 3 additional transactions coded as “HR Training” because the transaction description was unclear. The documentation showed that none of the 19 procurement transactions in our sample were for individual Senior Executive conference or training procurements.

Based on our review of expense and procurement transactions, we were unable to substantiate the allegation regarding reimbursement for Senior Executive conference and training expenses.

Questions Arising From Our Review of Expense and Procurement Transactions

Our review of the 19 procurement transactions identified two matters unrelated to the allegations that prompted us to make further inquiry.

- One matter involved meals, entertainment, and other expenses for the Fannie Mae Multifamily business segment’s 2018 Delegated Underwriting and Servicing (DUS®) Conference.4 For this conference, Fannie Mae provided us with 13 invoices and other related records. According to information in those documents, 164 Fannie Mae employees and 300 lender personnel attended the 2018 DUS® Conference in Austin, Texas, with total expenses of $742,928. Fannie Mae documents showed that lenders contributed $168,117 toward the conference for 283 lender personnel, resulting in a net expense to Fannie Mae of $574,811.

  Included within this total of $742,928 in conference expenses were costs for décor, music and activities, event planning, transportation, and production related to a reception, a “block party,” and a charity golf outing, totaling $90,639. Fannie Mae represented to us that $88,396 of this total was “allocated” to the funds collected from the lenders. Fannie Mae also represented to us that the remaining funds collected from the lenders, $79,721, were allocated to partially offset the meal costs for two receptions, the block party, and to cover the entire cost of one lunch event. For the receptions and the block party, Fannie Mae’s computation of the per person per meal costs paid by Fannie Mae, after the allocation of the funds collected from the lenders, was in each instance just under $150 (i.e., $149.80, $149.76, and $149.72), the amount allowed under the Business Courtesies Policy.5

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4 DUS® lenders are authorized by Fannie Mae to underwrite, close, and deliver most loans without Fannie Mae’s pre-review. Fannie Mae officials explained that the DUS® program has been in place for over 30 years and the conference was instituted many years ago to promote engagement with Fannie Mae’s 25 DUS® lenders with a goal of building relationships and ensuring consistency of message communication.

5 Fannie Mae’s computation of the per person per meal cost was based on 300 lender personnel attending the conference. Had the computation been based on the 283 lender personnel for which the lenders contributed funds, the per person per meal cost for one of the receptions and the block party would have been $155.46 and $155.42, respectively (we do not consider this to be a significant exception).
The closeness of this result strikes us as a remarkable coincidence but Fannie Mae, in its documents and representations, maintains that its expenses for this conference were within the confines of its Business Courtesies Policy.

- The second matter involved other procurements for 11 conference sponsorships. For four of these transactions, ranging from $10,000 to $57,975 (totaling $102,975), Fannie Mae produced no documentation to show SVP approval, as required by Fannie Mae’s Procurement Policy.

*Allegation that Senior Executive Requests for Exceptions to the Per Person Per Meal Dollar Limit Were Routinely Granted Could Not Be Substantiated*

We sought, and Fannie Mae produced, 49 written requests for exceptions to the per person per meal dollar limit submitted to Fannie Mae Ethics during the review period. We determined that 41 of these 49 requests were made by Senior Executives. Because the complaint was limited to Senior Executives, we confined our review to these 41.

Based on our review of these 41 exception requests, we found that they averaged just over one a month, a rate we do not consider to be frequent. Of these 41 exception requests, Fannie Mae Ethics approved 39 requests as submitted and approved the other 2 requests after reducing them.6 We noted the following from our review of these exception requests:

- The dollar amount of the 41 approved exceptions ranged from $258 for a dinner shared by a Fannie Mae officer and the President of a lending institution ($129 per person when the policy limit was $125) to $43,000 for a dinner of 200 Fannie Mae officers ($215 per person). The highest approved exception was $251 per person for a dinner attended by 68 individuals, including Fannie Mae board members and employees, and interested parties. Based on Fannie Mae documentation, we calculated the amounts in excess of the per person per meal limit approved for the 41 exception requests totaled roughly $70,000.

- In light of representations by Fannie Mae officials that Senior Executives are not required to obtain approvals where the aggregate cost of a meal, refreshment, or event exceeds $2,500, we limited our review to the assessment by Fannie Mae Ethics of these 41 requests. For most of the approved exceptions, Fannie Mae Ethics found that the expense “would not trigger a financial or reputational concern constituting a material exception” or the expense was “reasonable and customary” or “not lavish or otherwise unreasonable.” The Fannie Mae Ethics analysis also documented a business purpose of the expense and, in some cases, described attempts by the Senior Executive to limit costs. In one instance, Fannie Mae Ethics analysis noted that the per person cost ($234) for a meal was within the range of other exceptions recently approved – citing a meal with an even larger per person cost ($250) as justification.

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6 There were three other Senior Executive exception requests made during our review period that were withdrawn before Fannie Mae Ethics acted on them.
Based on our review, we are unable to substantiate that Senior Executives were routinely granted exceptions to Fannie Mae policy limits to purchase “lavish food and wine.” Senior Executive exception requests were not frequent and when they were made, they were reviewed and approved in accordance with Fannie Mae’s Business Courtesies Policy.

During the review period, there were 26 reimbursements to Senior Executives for meals that exceeded $2,500 in the aggregate. For 25 of the reimbursements, we found no exceptions to Fannie Mae’s Business Courtesies Policy since: for 24 of these reimbursements, the per person meal limit was not exceeded so Senior Executive submission of the expense satisfied Fannie Mae’s approval requirement; and for 1 reimbursement, the per person meal limit was exceeded but the requisite Fannie Mae Ethics approval was evidenced. However, for the remaining reimbursement – an $11,983 “teambuilding” bowling event paid for in three installments – we could not confirm compliance with the per person per meal limit in the policy because Fannie Mae was unable to provide an account of those who attended the event.7

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In performing this inquiry into allegations of excessive spending by Fannie Mae Senior Executives, we applied the criteria established by Fannie Mae’s Business Courtesies Policy. We were unable to substantiate the allegations.

We did identify a lack of documentation related to Senior Executive approvals for conference sponsorships and one teambuilding event reimbursed to a Senior Executive that exceeded $2,500 in the aggregate for which we could not confirm compliance with per person per meal limit approval requirements. As FHFA counseled the Enterprises in August 2014, it expected them to “manage your current expense policies, procedures, and compliance programs using management discretion consistent with your ongoing conservatorship status and prudent internal control processes.” In light of FHFA’s stated expectations and the exceptions we identified, prudence counsels that FHFA remind Fannie Mae management of its obligations.

**FHFA Comments and OIG Response**

We provided a draft of this management advisory to FHFA and received both technical comments, which we considered in finalizing the management advisory, and a written management response. In its management response, which is included in the appendix to this memorandum, FHFA informed us that they provided a copy of the advisory to Fannie Mae management as well as reminded Fannie Mae management of its obligations to manage its expense policies, procedures, and compliance programs consistent with its ongoing conservatorship status and prudent internal control processes.

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7 This event was paid for in three separate installments on three different dates. The expense documentation for this event associated the number of attendees with each recorded installment, i.e., 24 attendees for the initial deposit of $2,996, 43 attendees for the next payment of $3,987, and 56 attendees for the final payment of $5,001. We noted that the number of attendees associated with each recorded installment kept the per person per meal dollar limit from triggering. The number of attendees at the event was not tracked, and Fannie Mae could not demonstrate compliance with its policy.
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


DATE: August 28, 2019

Thank you for the opportunity to respond to the draft management report titled, Management Advisory: Allegations Related to Fannie Mae Senior Executive Spending on Entertainment, Conferences, and Training – January 2016 through September 2018 (Advisory). We appreciate the Office of Inspector General (OIG) providing us the results of your administrative inquiry into allegations received by the OIG’s Hotline that involve Fannie Mae.

We have provided a copy of the Advisory to Fannie Mae management to make them aware of the results of your administrative inquiry and testing of the documentation maintained for expense reimbursement. As you advise, we reminded Fannie Mae management of its obligations to manage its expense policies, procedures, and compliance programs consistent with its ongoing conservatorship status and prudent internal control processes.

Cc: Chris Bosland
    Larry Stauffer
    John Major