



Office of the Chief Procurement Officer, Washington, DC

The Government National Mortgage Association's
Contract With Burson-Marsteller



To: Keith W. Surber, Acting Chief Procurement Officer, N
//signed//
From: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia
Region, 3AGA
Subject: HUD Did Not Ensure That All Costs for Ginnie Mae's Contract With Burson-
Marsteller Were Supported, Reasonable, and Necessary

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's oversight of the Government National Mortgage Association's contract with public relations and communications firm Burson-Marsteller.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6734.



Audit Report Number: 2016-PH-0002

Date: July 23, 2016

HUD Did Not Ensure That All Costs for Ginnie Mae's Contract With Burson-Marsteller Were Supported, Reasonable, and Necessary

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of the Government National Mortgage Association's (Ginnie Mae) contract for financial industry and media marketing services with public relations and communications firm Burson-Marsteller. We initiated the audit after we became aware of potential issues regarding the amount of funds used for services, which may not have been reasonable or necessary. Specifically, Ginnie Mae paid the firm to promote members of its senior staff. Our objective was to determine whether HUD ensured that costs for Ginnie Mae's contract with Burson-Marsteller were reasonable, necessary, and supported.

What We Found

HUD did not ensure that all costs associated with Ginnie Mae's contract with Burson-Marsteller were supported, reasonable, and necessary. Specifically, HUD did not ensure that (1) Ginnie Mae maintained adequate supporting documentation for invoices paid and (2) costs for promoting members of Ginnie Mae's senior staff¹ were reasonable and necessary. This condition occurred because HUD did not have adequate oversight of Ginnie Mae's procurement and contract administration processes. As a result, HUD did not have assurance that \$1.8 million paid under Ginnie Mae's contract with Burson-Marsteller was supported and that up to \$1.1 million paid was for services that were reasonable and necessary. Unless HUD requires Ginnie Mae to improve its procurement and contract administration processes and increases its monitoring of Ginnie Mae, Ginnie Mae could incur additional costs under the Burson-Marsteller contract and future contracts that are not supported, reasonable, and necessary.

What We Recommend

We recommend that HUD's Acting Chief Procurement Officer (1) assess Ginnie Mae's processes and capabilities, and provide technical assistance to ensure that its staff is adequately trained on procurement and contract administration matters; (2) require Ginnie Mae to improve its procurement and contract administration processes to ensure that it follows all applicable requirements, thereby putting up to \$259,008 to better use; and (3) increase monitoring to ensure that Ginnie Mae's costs related to its contract with Burson-Marsteller and any future contracts are supported, reasonable, and necessary.

¹ Primarily Ginnie Mae's president, Theodore W. Tozer, and its former executive vice president, Mary K. Kinney

Table of Contents

Background and Objective.....	3
Results of Audit	4
Finding: HUD Did Not Ensure That All Costs for Ginnie Mae’s Contract Were Supported, Reasonable, and Necessary	4
Scope and Methodology.....	8
Internal Controls.....	10
Appendixes.....	11
A. Schedule of Funds To Be Put to Better Use.....	11
B. Auditee Comments and OIG’s Evaluation.....	12
C. Summary of Invoices Reviewed.....	20

Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Procurement Officer was created in 1998 to streamline and improve HUD's procurement operations. The office acquires products and services needed to support HUD's program missions and infrastructure; assists program offices in defining and specifying their procurement needs; and provides advice, guidance, and technical assistance related to procurement.

The Housing and Urban Development Act of 1968 created the Government National Mortgage Association (Ginnie Mae). Ginnie Mae's mission is to bring global capital into the housing finance market while minimizing the risk to the taxpayer. It does this by providing a guarantee backed by the full faith and credit of the United States for the timely payment of principal and interest on mortgage-backed securities secured by pools of government home loans. Ginnie Mae is a self-financing, wholly owned U.S. Government corporation within HUD. Title III of the National Housing Act states that all the powers and duties of Ginnie Mae will be vested in the Secretary of HUD and Ginnie Mae will be administered under the direction of the Secretary. Further, the Act indicates that within the limitations of law, the Secretary will determine the general policies that will govern Ginnie Mae's operations.

Since July 2011, Ginnie Mae has maintained a contract² for financial industry and media marketing services with the public relations and communications firm Burson-Marsteller. The contract includes services, such as a marketing plan, media relations and clip services, conference and event support, stakeholder outreach and validation, legislative tracking, and Web site support. As of October 2015, Ginnie had paid more than \$3.9 million for these services.

Year	Amount paid
2011	\$503,676
2012	984,520
2013	798,982
2014	913,859
2015	794,339
Total	\$3,995,376

Our objective was to determine whether HUD ensured that costs for Ginnie Mae's contract with Burson-Marsteller were reasonable, necessary, and supported.

² Ginnie Mae issued a task order covering 1 year under the General Services Administration Federal Supply Schedule 541 (advertising and integrated marketing services), special item number 5 (integrated marketing services), in accordance with subpart 8.4 of the Federal Acquisition Regulation. It later executed modifications to increase the amount of the contract and extend the term.

Results of Audit

Finding: HUD Did Not Ensure That All Costs for Ginnie Mae's Contract Were Supported, Reasonable, and Necessary

HUD did not ensure that all costs associated with Ginnie Mae's contract with Burson-Marsteller were supported, reasonable, and necessary. Specifically, HUD did not ensure that (1) Ginnie Mae maintained adequate supporting documentation for invoices paid and (2) costs for promoting members of Ginnie Mae's senior staff were reasonable and necessary. This condition occurred because HUD did not have adequate oversight of Ginnie Mae's procurement and contract administration processes. As a result, HUD did not have assurance that \$1.8 million paid under Ginnie Mae's contract with Burson-Marsteller was supported and that up to \$1.1 million paid was for services that were reasonable and necessary. Unless HUD requires Ginnie Mae to improve its procurement and contract administration processes and increases its monitoring of Ginnie Mae, Ginnie Mae could incur additional costs under the Burson-Marsteller contract and future contracts that are not supported, reasonable, and necessary.

Ginnie Mae Did Not Always Have Adequate Supporting Documentation for Invoices Paid

We reviewed 55 invoices that Ginnie Mae paid for its contract with Burson-Marsteller. HUD did not ensure that Ginnie Mae maintained adequate documentation to support costs associated with its contract. For example,

- For 29 of the 55 invoices reviewed, Ginnie Mae did not have records detailing its request, approval, and receipt of the specific media outreach services performed. Both the contract and the HUD Acquisition Regulation, paragraph 2452.237-73(c), indicated that Ginnie Mae's government technical representative (GTR) would issue guidance regarding work to be performed in writing or if issued orally, would confirm such direction in writing.³ Further, HUD Handbook 2210.3 required the GTR to maintain a working file for the contract, including copies of all correspondence and notes of substantive oral communications with the contractor. While Ginnie Mae indicated that approval for media outreach services was usually handled over the telephone, it was unable to produce records detailing the phone calls or showing that the GTR had provided guidance. Further, while Ginnie Mae maintained a marketing plan with the contractor that referenced potential media opportunities, only a few specific media outreach activities were directly approved in the marketing plan. Finally, Ginnie Mae did not have a comprehensive list or copies of the deliverables provided by the contractor, such as articles, blog posts, and interviews related to its senior staff.
- For 16 of the 55 invoices reviewed, Ginnie Mae's records did not include supporting documentation, such as evidence of payments made and individual daily timecards. Both

³ The HUD Acquisition Regulation required confirmation in writing within 5 calendar days, and the contract required written confirmation within 10 calendar days.

the contract and Federal Acquisition Regulation (FAR), paragraph 52.232-7(a)(5), required the contractor to substantiate invoices by evidence of actual payment, individual daily timecards, records verifying that the employees meet the qualifications for the labor categories specified in the contract, or other substantiation specified in the contract.

- For 1 of the 55 invoices reviewed, Ginnie Mae’s records did not include a description of the services that were performed for the period. Both the contract and section 24.52.232-70 of the HUD Acquisition Regulation required the contractor to include all items required by section 52.232-25 of the FAR in its invoice. Paragraph 52.232-25(a)(3)(iv), FAR stated that invoices must include a description, quantity, and unit of measure for all services performed.

As a result of the issues identified above, HUD did not have assurance that \$1.8 million paid (see appendix C) under the contract by Ginnie Mae was supported and that the costs paid were for services requested and received by Ginnie Mae.

Costs for Promoting Members of Ginnie Mae’s Senior Staff May Not Have Been Reasonable and Necessary

Of the 55 invoices reviewed, 29 contained charges relating to the promotion of members of Ginnie Mae’s senior staff.⁴ HUD did not ensure that these costs were reasonable and necessary. For example, according to the invoice documentation provided, Ginnie Mae paid for

- Outreach to media outlets to position its president, Theodore W. Tozer, as an industry expert who could provide unique insights into the housing industry and economy.
- An article placement with SHAPE.com, entitled “28 Powerful Women Share Their Best Advice.” In the article, Ginnie Mae’s former executive vice president, Mary K. Kinney, provided career advice for reaching personal goals and suggested that exercise and maintaining a healthy diet are essential for managing the stresses of a high profile position.
- An article placement with Government Executive authored by Ginnie Mae’s former executive vice president, Mary K. Kinney, entitled “How to improve employee satisfaction by 50 percent.”
- A blog post placement with Forbes authored by Ginnie Mae’s former executive vice president, Mary K. Kinney, on tips for women looking to succeed in financial services.

Although promoting senior staff was not expressly prohibited by section 31.205-1 of the FAR, this activity did not clearly meet the FAR criteria for allowable public relations and advertising costs, did not clearly correspond to typical tasks listed under the General Services

⁴ The majority of the charges related to Ginnie Mae’s president, Theodore W. Tozer, and its former executive vice president, Mary K. Kinney.

Administration's Federal Supply Schedule,⁵ and may not have been reasonable and necessary. Ginnie Mae guarantees mortgage-backed securities of government-insured loans. These securities are issued by approved private lending institutions. Because Ginnie Mae is the primary agency to offer this service, is a wholly owned government corporation that is not required to make decisions to increase value for shareholders,⁶ and does not work directly with consumers, media outreach initiatives to promote members of its senior staff may not have been reasonable or necessary. As a result, HUD did not have assurance that up to \$1.1 million⁷ disbursed was for costs that were reasonable and necessary.

HUD Did Not Provide Adequate Oversight of Ginnie Mae's Procurement and Contract Administration Processes

The conditions above occurred because HUD's Office of the Chief Procurement Officer did not regularly perform reviews of Ginnie Mae and did not adequately follow up on issues it identified. In May 2013, HUD performed contract file reviews for Ginnie Mae's GTRs and identified several issues related to the Burson-Marsteller contract. For example, the GTR approved work orders without having proper written authority, the GTR's file lacked documentation to support some charges, and the GTR's file did not show that it had completed contractor performance assessment reports. Further, in April 2015, HUD completed a monitoring checklist related to the Burson-Marsteller contract, in which it noted that Ginnie Mae did not have copies of all correspondence between the GTR and the contractor, contracting officer, or others concerning the performance of the contract and indicated that Ginnie Mae had not maintained documentation and data to provide a complete history of all relevant actions taken by the GTR. However, HUD did not adequately follow up on the issues identified. While it provided a corrective action plan related to its 2013 review, the plan did not show the status of the recommendations. Further, HUD did not provide any follow up documentation related to its 2015 checklist.

Conclusion

HUD did not ensure that all costs associated with Ginnie Mae's contract with Burson-Marsteller were supported, reasonable, and necessary. This condition occurred because HUD did not have adequate oversight of Ginnie Mae's procurement and contract administration processes. As a result, HUD did not have assurance that \$1.8 million paid under Ginnie Mae's contract with Burson-Marsteller was supported and that up to \$1.1 million paid was for services that were reasonable and necessary. Unless HUD requires Ginnie Mae to improve its procurement and contract administration processes and increases its monitoring of Ginnie Mae, Ginnie Mae could

⁵ Typical tasks listed in the advertising and integrated marketing solutions schedule included press, public relations, and crisis communications; training of agency personnel to deal with media; media alerts; and press clipping services.

⁶ The Federal National Mortgage Association and Federal Home Loan Mortgage Corporation are government-sponsored enterprises that were chartered by Congress. They are owned by shareholders and are under conservatorship. These agencies primarily guarantee mortgage-backed securities and loan portfolios of conventional loans.

⁷ The 29 invoices did not provide a breakdown of costs for each activity performed by the contractor during the billing period. However, the activities that promoted senior staff were billed as part of line items totaling approximately \$1.1 million.

incur additional costs under the Burson-Marsteller contract and future contracts that are not supported, reasonable, and necessary. By improving its processes, Ginnie Mae will not spend funds on charges that are not reasonable and necessary and, instead, will spend those funds on costs that are reasonable and necessary, thereby putting up to \$259,008⁸ of funds to better use over the next year.

Recommendations

We recommend that HUD's Acting Chief Procurement Officer

- 1A. Assess Ginnie Mae's processes and capabilities, and provide technical assistance to ensure that its staff is adequately trained on procurement and contract administration matters.
- 1B. Require Ginnie Mae to improve its procurement and contract administration processes to ensure that it follows all applicable requirements, thereby putting up to \$259,008 to better use.
- 1C. Increase monitoring of Ginnie Mae to ensure that costs related to its contract with Burson-Marsteller and any future contracts are supported, reasonable, and necessary.

⁸ This is the amount of funds that HUD can put to better use in the next 12 months. This amount was calculated by annualizing the average monthly amount that was charged to line items that included the promotion of senior staff during our 52 month audit period (July 2011 through October 2015). The calculation is: $\$1,122,345/52 \text{ months} = \$21,584/\text{month} \times 12 \text{ months} = \$259,008$ for a year.

Scope and Methodology

We conducted the audit from April 2015 through June 2016 at HUD's office located at 451 7th Street SW, Washington, DC, Ginnie Mae's office located at 550 12th Street SW, Washington DC, and our office located in Philadelphia, PA. The audit covered the period July 2011 through October 2015.

To accomplish our objective, we reviewed

- Relevant background information;
- Applicable laws, regulations, and HUD guidance;
- The Burson-Marsteller contract, along with invoices and supporting documentation submitted by the contractor;
- Payment registers, payment vouchers, and other documentation prepared by Ginnie Mae in relation to the contract;
- Ginnie Mae's draft and final marketing plans, along with its 2014 and 2015 fiscal year media coverage reports;
- Articles, blogs, and interviews associated with the contract;
- A May 2013 monitoring report prepared by HUD, along with related documents; and
- An April 2015 monitoring checklist prepared by HUD.

We interviewed responsible employees of Ginnie Mae and HUD staff located in Washington, DC.

To achieve our audit objective, we relied in part on the Federal Procurement Data System – Next Generation computer-processed data. We used the data to help identify the contract reviewed. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

Using the Federal Procurement Data System - Next Generation, we identified 11,454 procurement records for HUD covering October 2011 through March 2015. From these data, we identified 59 records covering 15 contracts that specifically related to public relations.⁹ Of the 15 contracts, Ginnie Mae's contract with Burson-Marsteller had the largest amount obligated and represented more than 35 percent of the total funds obligated to the 15 contracts for the period. Further, we identified publicly available information showing that Burson-Marsteller had billed Ginnie Mae for promoting members of its senior staff. Therefore, we limited the scope of our

⁹ Each record had a product or service code or a North American Industry Classification System code that included public relations in the code description.

review to this contract. Although this approach did not allow us to make a projection to the entire population of contracts related to public relations, it allowed us to review 100 percent of the invoices for the contract selected.

We identified 55 invoices totaling nearly \$4 million that were paid for the contract between July 2011 and October 2015. We obtained copies of the invoices and related documentation from Ginnie Mae as well as any other relevant documentation maintained by the GTR and Ginnie Mae's finance staff. We reviewed this information to identify charges related to the promotion of members of senior staff and to evaluate the overall presence of supporting documentation. Appendix C contains details on the invoices reviewed. In addition to the documentation obtained from HUD and Ginnie Mae throughout the audit, we obtained and reviewed documentation from the contractor in response to an OIG subpoena.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal control was relevant to our audit objective:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- HUD's Office of the Chief Procurement Officer did not regularly perform reviews of Ginnie Mae to ensure that it complied with all applicable requirements and did not adequately follow up on issues it identified.

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1B	\$259,008


- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if HUD implements our recommendations, Ginnie Mae will not spend funds on charges that are not reasonable and necessary, either under the Burson-Marsteller contract or any future contracts, and, instead, will spend those funds on costs that are reasonable and necessary, thereby putting up to \$259,008 of funds to better use over the next year.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

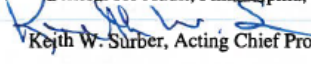


U.S. Department of Housing and Urban Development
Washington, D.C. 20410

JUN 29 2016

CHIEF PROCUREMENT OFFICER

MEMORANDUM FOR: David E. Kasperowicz, Regional Inspector Office of the Inspector General for Audit, Philadelphia, 3AGA

FROM: 
Keith W. Surber, Acting Chief Procurement Officer, N

SUBJECT: Draft Audi Report Number 2016-PH-XXXX, The Government National Mortgage Association's Contract With Burston-Marsteller

Thank you for the opportunity to comment on the subject draft audit report. In general, while not fully embracing the findings outlined, we support the recommendations provided in the audit as there clearly is room for improvement in the monitoring and oversight of the subject contract. I have summarized the concerns below; specific comments will follow.

1. OIG did not have a discussion or out brief with GNMA staff regarding their findings and recommendations. In the out brief with OCPO, we suggested such discussion occur, but OIG declined. OCPO then shared the draft report with GNMA, who have taken exceptions to the findings. GNMA's comments to OCPO have been attached to this memo. Based on GNMA's assertions, we believe that having the discussion directly with GNMA potentially may have resulted in a different assessment.
2. As we discussed in the out brief, we feel there is incorrect reliance being emphasized regarding allowable versus unallowable costs in accordance with the Federal Acquisition Regulation 31.205-1-- Public Relations and Advertising Costs.
3. Inasmuch as costs directly incurred in performance of the contract are allowable, the question of whether they should have been incurred is a policy one not within the purview of OCPO to make a determination on.
4. Although the recommendation regarding the better use of funds is questioned, given the points noted above, OCPO agrees with the recommendations that we can take steps to improve procurement and contract administration of the GNMA contracts.

Regarding the issue surrounding allowability of costs, it is important to focus on all aspects of FAR Part 31, not just the cited portion. FAR Subpart 31.2 deals with all aspects of contractor costs on a total cost basis, including direct and indirect costs. The basic rules related to payment of costs is to determine if the costs are reasonable, allocable to the contract, and allowable under the contract. We believe that costs that were directly attributable to the contractor's performance, as direct costs, are very clearly allocable and allowable.

Visit our web page at <http://www.hud.gov/offices/cpo/index.cfm>

Comment 1

Comment 2

Comment 3

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4

Absent any determination that they were not reasonable, as defined in the FAR, they should not be considered unallowable under the FAR as cited. Specifically, FAR 31.205-1 clearly defines Public Relations (PR) costs as meaning all functions and activities dedicated to --

(1) Maintaining, protecting, and enhancing the image of a concern or its products; or

(2) Maintaining or promoting reciprocal understanding and favorable relations with the public at large, or any segment of the public. The term public relations includes activities associated with areas such as advertising, customer relations, etc.

The FAR is referencing PR costs that the company incurs for the public relations of its own products and services, not those of an entity upon whose behalf it is directly incurring such types of costs for public relations services. To conclude otherwise would obviate the purpose of the contract itself. Given this, we do not believe that the costs identified as being able to be put to better purpose are fully accurate.

Comment 5

In addition, as shown in the attached comments from GNMA, GNMA believes that there was inadequate communication and understanding and that there is supporting documentation available for the auditors to review to make an assessment of adequacy.

Comment 3

As noted in the report, the promotion of HUD personnel is not expressly prohibited by the FAR. Absent any other express prohibition, the use of the contract to promote GNMA executives is a policy one. OCPO's responsibility is to contract for services desired by its customers that are not prohibited by law. The customer must ensure that policy and best practices are adhered to in making such decisions to obtain such services. In the GNMA response attached, GNMA avers that such services are customary in their line of business.

OCPO concurs with the recommendations provided by the OIG regarding improving contract management and oversight of these types of GNMA contracts, absent any agreement regarding the costs that could be put to better use.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 6

Comment 7

Comment 8

ATTACHMENT - GNMA Comments

1) The report states that the contract file had been reviewed twice, May 2013 and April, 2015 by OCPO. The IG is stating that of 55 invoices reviewed, 29 did not have records detailing request approval and receipt of the specific media outreach services performed.

One problem with the IG report is that the GTR on record for part of the period reviewed was out on medical leave and was not interviewed, nor were all her supporting documents, including her extensive electronic files, considered. In particular, the electronic files in question provide extensive supporting documentation. If all GTRs on record had been interviewed and given the opportunity to release their electronic records, it would have been revealed that documentation did exist for each order released to the contractor.

It should be noted that the 2015 review by OCPO stated that the support documentation was not in the GTR file, however, was available electronically.

2) From the award of the contract July, 2011, [REDACTED] was the GTR of record.

- [REDACTED] no longer works for Ginnie effective 9/2013.
- [REDACTED] became the GTR of record, on 9/26/13.

3) [REDACTED] was on leave from 10/20/2015 through 12/07/2015. On 10/01/15, [REDACTED] was removed as GTR and replaced with [REDACTED].

Appendix C of the IG findings, Summary of Invoices Reviewed, list 55 invoices reviewed. Of the 55 invoices reviewed, 24 were during the time that [REDACTED] was GTR: Invoices 31 thru 54. [REDACTED] was the GTR during the time period of Invoices 1 thru 30.

To Ginnie Mae's knowledge, [REDACTED] was never interviewed by the IG to request additional or supporting information related to the 24 invoices during the time period she served as GTR. This is important, because [REDACTED] would probably be able to provide supporting documentation to verify the payment of any related invoices.

It is also Ginnie Mae's knowledge that before [REDACTED] started her leave, she transitioned to [REDACTED] her hard copy GTR files. If there were any questions concerning documentation of those files, the IG probably should have scheduled interviews directly with [REDACTED] concerning the files.

4) On page 5 of the report, it is noted that funds were improperly used to promote Senior Staff.

Promoting the knowledge and skills of corporate leadership is a standard practice of any successful corporation operating in today's global economy. Instilling confidence in Ginnie Mae's leadership, particularly its top staff, is especially crucial for a government corporation like Ginnie Mae, because Issuers and Investors active in the program do so voluntarily.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Comments 8
and 9

Auditee Comments

Their confidence that Ginnie Mae's top leaders are capable and knowledgeable and can make financial decisions is a crucial element of successfully meeting our mission. Ginnie Mae's charter explicitly directs it to be active and competitive in the Secondary Market, just as are the GSEs. While it is not a publicly traded company, it nonetheless returns about \$1 billion a year to the U.S. Treasury. The nature of our business, which is to monitor 433 investors in mortgage backed securities, as well as facilitate the infusion of global and domestic capital into the \$10 trillion mortgage market is complex and at times subjective, relying on the knowledge of Ginnie Mae leadership, particularly the Ginnie Mae President. The numerous articles and TV segments that have featured President Tozer have reinforced his reputation as a trusted expert on the complex MBS market. As a result, he is often called upon by financial writers both here and abroad, to opine about issues that affect Ginnie Mae and the larger housing market.

For as long as the contract has existed it has been used to reassure the investor and issuer community about the strength and stability of the Ginnie Mae program. Part of that reassurance is the discussion of the skills and capabilities of its senior staff. Industry stakeholders need to know that Ginnie Mae has the appropriate leadership in place to continue the efficient execution of the program.

Further, in advance of these media interviews, it was necessary for the contractor to media train/prep Ted Tozer on the most skillful methods to answer inquiries about the Ginnie Mae MBS program.

No previous work issued to the contractor has ever been found to be out of scope of the contract's terms and conditions over the course of the contract, which has spanned for more than an eight-year period. This would include procurement contract reviews and/or conversations with the contracting officer and legal staff concerning the terms of the contract.

OIG Evaluation of Auditee Comments

- Comment 1 HUD stated that we did not have a discussion or “out-brief” with Ginnie Mae regarding the finding and recommendations and that if we had, the review may have resulted in a different assessment. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The objective of this audit was to determine whether HUD ensured that costs for Ginnie Mae’s contract with Burson-Marsteller were reasonable, necessary, and supported. During the audit, we contacted HUD and Ginnie Mae staff to obtain relevant documentation. While we did not meet with Ginnie Mae regarding the finding and recommendations because it was not the auditee, we informed HUD that it was welcome to share the results of the audit with Ginnie Mae. As discussed in the report, we believe that the evidence obtained during the audit provides a reasonable basis for our finding and conclusion.
- Comment 2 HUD contended that there was an incorrect reliance on allowable versus unallowable costs in accordance with section 31.205-1 of the FAR. We disagree. As discussed during the exit conference, we included the information from the FAR as a point of comparison because this section discusses public relations and advertising costs for contracts with commercial organizations and provides examples of allowable and unallowable public relations and advertising costs. As noted in the report, promoting members of senior staff was not expressly prohibited by section 31.205-1 of the FAR, nor did it clearly meet the criteria for allowable public relations and advertising costs.
- Comment 3 HUD contended that since costs directly incurred in the performance of the contract are allowable, the question of whether they should have been incurred is a policy question and not within the purview of the Office of the Chief Procurement Officer. Section 31.201-2 of the FAR states that a cost is allowable only when the cost is, among other factors, reasonable. Section 31.201-3 of the FAR states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Our review found that the costs for promoting Ginnie Mae’s senior staff may not have been reasonable in nature. HUD’s Office of the Chief Procurement Officer is responsible for all matters related to HUD’s acquisition-related needs and activities, including managing the acquisition workforce, in addition to conducting procurement activities. While we understand that this office works with the program offices and Ginnie Mae when conducting procurement activities, we believe that the question of whether these costs should have been incurred is within the purview of HUD’s Office of the Chief Procurement Officer.
- Comment 4 HUD contended that unless the costs for promoting members of Ginnie Mae’s senior staff were determined to not be reasonable, as defined in the FAR, they

should not be considered unallowable. We agree. However, section 31.201-3 of the FAR states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Although promoting members of senior staff was not expressly prohibited by section 31.205-1 of the FAR, our review found that the costs for promoting Ginnie Mae's senior staff may not have been reasonable in nature. Ginnie Mae guarantees mortgage-backed securities of government-insured loans. These securities are issued by approved private lending institutions. Ginnie Mae is the primary agency to offer this service, is a wholly owned government corporation that is not required to make decisions to increase value for shareholders, and does not work directly with consumers. Therefore, media outreach initiatives to promote members of its senior staff, particularly articles that do not pertain specifically to the work of Ginnie Mae, may not have been reasonable or necessary.

Comment 5 HUD stated that Ginnie Mae believed that there was inadequate communication and understanding and that there was supporting documentation available for review. During the audit, we conducted two onsite visits to Ginnie Mae's office. We also communicated via email during the period October 2015 to February 2016. In some of the email communication, Ginnie Mae stated that certain documents, such as individual work orders and a summary of activity report, did not exist and, therefore, could not be provided to support the questioned costs. We also communicated our findings to HUD during the audit, and it did not indicate that there was additional documentation available for review. Further, in HUD's April 2015 monitoring checklist, it found that Ginnie Mae did not have copies of all correspondence between the GTR and the contractor, contracting officer, or others concerning the performance of the contract and indicated that Ginnie Mae had not maintained documentation and data to provide a complete history of all relevant actions taken by the GTR.

In addition to the documentation obtained from HUD and Ginnie Mae throughout the audit, we obtained documentation from the contractor in response to an OIG subpoena. This documentation included electronic documentation related to the promotion of members of Ginnie Mae's senior staff. We reviewed more than 1,000 documents obtained through the subpoena but did not identify any additional records detailing Ginnie Mae's request, approval, and receipt of specific media outreach services performed.

Comment 6 Ginnie Mae contended that the former GTR was not interviewed by OIG nor were her extensive electronic files considered. While we did not interview the former GTR, we copied her on emails in which we asked for supporting documentation for invoices. For example, we emailed the current GTR and the former GTR (after she had returned from medical leave) requesting a copy of the summary of activity report for the one invoice that did not include a description of the services performed for the period. Neither was able to provide a copy of the report for our

review. In addition, we emailed Ginnie Mae's chief financial officer, the current GTR, and the former GTR to request documentation regarding ordered services. In reply to this email, the current GTR stated that Ginnie Mae did not develop individual work orders for each assignment under the contract. Further, Ginnie Mae should have had controls in place to ensure that no matter who the GTR was at any point in time, the official Government files were accessible to the organization and contained all of the relevant information and documentation, whether maintained in hardcopy, electronically, or both. The current GTR should have had all relevant information.

As mentioned in comment 5, we obtained documentation from the contractor. This documentation included electronic documentation related to the promotion of members of Ginnie Mae's senior staff. We did not identify any additional records detailing Ginnie Mae's request, approval, and receipt of specific media outreach services performed.

Comment 7 Ginnie Mae stated that a 2015 review by HUD found that while supporting documentation was not in the GTR file, it was available electronically. HUD's April 2015 monitoring checklist noted that there were electronic files related to monitoring and periodic evaluations of contractor performance; inspection, acceptance, and monitoring; and required administrative, financial, and technical progress reports. However, the checklist indicated that Ginnie Mae did not have copies of all correspondence between the GTR and the contractor, contracting officer, or others concerning the performance of the contract and indicated that Ginnie Mae had not maintained documentation and data to provide a complete history of all relevant actions taken by the GTR. The checklist did not note that there were electronic files related to these checklist items.

Also, as mentioned in comment 5, we obtained documentation from the contractor. We did not identify any additional records detailing Ginnie Mae's request, approval, and receipt of specific media outreach services performed.

Comment 8 Ginnie Mae contended that promoting the knowledge and skills of corporate leadership is a standard practice of any successful corporation and instilling confidence in Ginnie Mae's leadership, particularly its top staff, is crucial because issuers and investors active in the program participate voluntarily. Ginnie Mae further stated that issuers' and investors' confidence that its top leaders are capable and knowledgeable and can make financial decisions is a crucial element in successfully accomplishing its mission. We disagree. Ginnie Mae guarantees mortgage-backed securities of government-insured loans. These securities are issued by approved private lending institutions. Ginnie Mae is the primary agency to offer this service, is a wholly owned government corporation that is not required to make decisions to increase value for shareholders, and does not work directly with consumers. Therefore, media outreach initiatives to promote members of its senior staff, particularly articles that do not pertain specifically to

the work of Ginnie Mae, may not have been reasonable or necessary. For example, Ginnie Mae paid the contractor for an article placement with SHAPE.com, in which its former executive vice president, Mary K. Kinney, provided career advice for reaching personal goals and suggested that exercise and maintaining a healthy diet are essential for managing the stress of a high-profile position. We do not believe that this media initiative showed that Ginnie Mae's top leaders were capable and knowledgeable and could make financial decisions or inform stakeholders that Ginnie Mae had the appropriate leadership in place to efficiently execute the program.

Comment 9 Ginnie Mae contended that its charter explicitly directed it to be active and competitive in the secondary market. However, Ginnie Mae did not provide a reference to the specific provision, and we were unable to substantiate its existence based on a review of Title III of the National Housing Act, which contains Ginnie Mae's authorizing statute.

Appendix C

Summary of Invoices Reviewed

#	Invoice number	Invoice date ¹⁰	Total invoice amount	Amount charged to line items that included the promotion of senior staff	Amount missing invoice support	Amount missing a summary of activities report
1	192552	9/15/2011	\$50,321			
2	193996	9/16/2011	310,619			
3	197572	11/14/2011	68,291			
4	195500	11/22/2011	74,444			\$74,444
5	198978	12/12/2011	46,000		\$46,000	
6	199058	12/12/2011	65,449		65,449	
7	201078	1/11/2012	32,209		32,209	
8	202966	2/10/2012	50,984		50,984	
9	204591-9	3/14/2012	29,528		29,528	
10	206293	4/10/2012	61,058		61,058	
11	208081	5/15/2012	68,973		68,973	
12	209827	6/12/2012	42,806		42,806	
13	211584	7/12/2012	33,640	\$19,587		
14	212249	7/27/2012	13,446			
15	21365	8/20/2012	49,115	31,881		
16	26000	9/11/2012	69,698	46,961	69,698	
17	222100346	9/28/2012	240,540			
18	222100595	10/10/2012	56,797	44,855	56,797	
19	222101194	11/13/2012	58,356	35,462		
20	222101923	12/10/2012	65,920	47,072		
21	222102801	1/17/2013	54,337	44,880		
22	222104126	3/13/2013	68,288	32,324	68,288	
23	222103310	4/3/2013	60,406	32,904		
24	222104968	4/11/2013	80,020	16,377	80,020	
25	222105632	5/10/2013	74,563			
26	222106351	6/11/2013	38,860	13,175		
27	222106910	7/9/2013	31,327	13,686		
28	222107130	7/19/2013	9,640	3,676	9,640	
29	222107515	8/21/2013	279,214	260,391		
30	222107939	9/10/2013	35,659	14,969		

¹⁰ The invoice dates shown were taken from the payment register provided by Ginnie Mae.

#	Invoice number	Invoice date ¹¹	Total invoice amount	Amount charged to line items that included the promotion of senior staff	Amount missing invoice support	Amount missing a summary of activities report
31	222108604	10/17/2013	41,840	17,417		
32	222109076	11/19/2013	24,830	7,376		
33	222109927	1/7/2014	48,692	14,775		
34	222110176	1/17/2014	43,706	25,903		
35	222110543	2/28/2014	49,911	16,751	49,911	
36	222111334	4/24/2014	50,361	22,303	50,361	
37	222110787	5/27/2014	39,392	17,399		
38	222111922	5/27/2014	44,303	26,853		
39	222112493	6/25/2014	35,972			
40	222113059-39	8/12/2014	75,652			
41	222113502	8/18/2014	166,340			
42	22211350	9/25/2014	52,850		52,850	
43	222113453	9/25/2014	179,821			
44	222114558	10/27/2014	56,847			
45	222115006	11/24/2014	70,013			
46	222115506	12/22/2014	33,536	21,565		
47	222115932	1/30/2015	35,966			
48	222116168	2/23/2015	54,825	28,827		
49	222116494	4/14/2015	68,365	30,791		
50	222116934	4/22/2015	52,712	17,709		
51	222117396	5/20/2015	52,462	18,031		
52	222117858	6/24/2015	67,698			
53	222118264	7/28/2015	141,753			
54	222118649	9/15/2015	51,027			
55	222119118	10/6/2015	235,994	198,445		
Totals			\$3,995,376	\$1,122,345¹²	\$834,572	\$74,444
Total amount discussed in the finding				\$1,848,114¹³		

¹¹ The invoice dates shown were taken from the payment register provided by Ginnie Mae.

¹² The 29 invoices did not provide a breakdown of costs for each activity performed by the contractor during the billing period. However, the activities that promoted senior staff were billed as part of line items totaling approximately \$1.1 million.

¹³ The \$1,848,114 includes \$834,572 for invoices that were missing support, \$74,444 for the invoice that did not include a summary of activities report, and \$939,098 for line items that included the promotion of senior staff on invoices not included in the other two categories. The remaining \$183,247 shown for line items that included the promotion of senior staff was part of invoices that were also missing supporting documentation.