

Federal Housing Finance Agency  
Office of Inspector General



**DBR Conducted Effective Oversight  
of FHLBanks' Employee Expense  
Reimbursement Processes But  
Lacked Documented Examination  
Guidance**

Audit Report • AUD-2023-009 • September 28, 2023



AUD-2023-009

September 28,  
2023

## Executive Summary

The Federal Home Loan Bank Act of 1932 created the Federal Home Loan Bank System (FHLBank System). The FHLBank System currently consists of 11 regional FHLBanks and the Office of Finance. The FHLBanks support residential housing finance and community development and provide liquidity to members. FHLBanks typically reimburse employees for travel-related and other business expenses incurred during approved FHLBank activities. The Federal Housing Finance Agency (FHFA) regulates and supervises the FHLBank System.

The FHFA Director delegates supervision of the FHLBank System to the Deputy Director, Division of Federal Home Loan Bank Regulation (DBR). For each FHLBank, DBR conducts supervisory activities, including an annual examination, periodic visitations, special reviews, and offsite monitoring. DBR does not view employee expense reimbursements as a safety and soundness risk for the FHLBank System, given their relatively small amounts. When DBR does examine employee expense reimbursements, it reviews travel and reimbursement policies, along with internal audit reports related to the expenses.

We conducted this audit in response to allegations of potential fraud and wasteful spending in expense reimbursements at an FHLBank (FHLBank A) pertaining to specific members of the FHLBank's management team. Our objectives were to determine whether DBR conducted effective oversight of FHLBanks' employee expense reimbursement processes and whether these processes presented significant risk to the FHLBank System.

The audit scope covered DBR's examination procedures for FHLBank A's expense reimbursement process from January 1, 2016, through December 31, 2022. As part of our testing of DBR's examination methodology, we included an examination of a second FHLBank's (FHLBank B) expense reimbursement process from January 1, 2021, through December 31, 2022.

We found that DBR's examinations of FHLBank A and FHLBank B policies and procedures, internal audit reports, and implementation of correction actions were sufficient for overseeing employee expense reimbursement processes, which do not pose a safety and soundness risk to the FHLBank System. While DBR's oversight was effective for the examination periods within the audit scope, we found that DBR lacked documented guidance for examining FHLBanks' employee expense reimbursement processes.

We made two recommendations in this report to address our finding. In a written response, FHFA agreed with our recommendations.



AUD-2023-009

September 28,  
2023

This report was prepared by Jim Lisle, Audit Director; April Ellison, Audit Manager; and Marco Uribe, Auditor-in-Charge; with assistance from Abdil Salah, Assistant Inspector General for Audits. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaog.gov](http://www.fhfaog.gov), and [www.oversight.gov](http://www.oversight.gov).

James Hodge, Deputy Inspector General for Audits /s/

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## ABBREVIATIONS .....

CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
DBR	Division of Federal Home Loan Bank Regulation
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
GAO	Government Accountability Office
Green Book	<i>Standards for Internal Control in the Federal Government</i>
OIG	Federal Housing Finance Agency Office of Inspector General
OPB	Operating Procedures Bulletin
QCB	Quality Control Branch
ROE	Report of Examination

## BACKGROUND.....

The Federal Home Loan Bank Act of 1932 created the FHLBank System. The FHLBank System currently consists of 11 regional FHLBanks and the Office of Finance. The FHLBanks support residential housing finance and community development and provide liquidity to members. FHLBanks typically reimburse employees for travel-related and other business expenses incurred during approved FHLBank activities. FHFA regulates and supervises the FHLBank System.

### **DBR Examinations of FHLBanks' Expense Reimbursement Processes**

The FHFA Director delegates supervision of the FHLBank System to the Deputy Director, DBR. For each FHLBank, DBR conducts supervisory activities, including an annual examination, periodic visitations, special reviews, and offsite monitoring. DBR issues an annual Report of Examination (ROE) to the board of directors of each of the FHLBanks and the Office of Finance. The ROE communicates substantive examination conclusions, principal findings, and the composite and component CAMELSO ratings for each entity.<sup>1</sup>

#### ***Workprograms***

To complete onsite examinations, supervision staff use workprograms that cover the scope of FHLBank operations and provide a framework to develop examination conclusions and ratings.<sup>2</sup> DBR has established minimum frequencies for individual workprograms based upon risk.

According to DBR, employee expense reimbursements do not pose a safety and soundness risk to the FHLBank System due to the low dollar amounts involved. As a result, there is no minimum frequency for performing examinations of employee expense reimbursements. Typically, DBR's examination in this area occurs as part of a review of travel and reimbursement policies, or when it is connected to a review of FHLBank internal audit reports related to the subject.

DBR examiners may review aspects of an FHLBank's employee expense reimbursement process when performing the following workprograms:

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<sup>1</sup> CAMELSO is a risk-focused rating system under which each FHLBank is assigned a composite rating based on an evaluation of various aspects of its operations. For the FHLBanks, the components evaluated are Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk.

<sup>2</sup> A workprogram contains the worksteps that an examiner performs to meet the examination scope objectives and to document the basis for conclusions on the level of risk and quality of risk management pertaining to the area examined.

- Board of Directors and Senior Management workprogram – annually assesses issues of corporate governance and risk governance. Corporate governance involves the relationships among the regulated entity’s board, management, and shareholders or members. It also, among other things, incorporates integrity and ethics, disclosure of material matters, and financial reports. Risk governance is the regulated entity’s approach to risk management and includes the policies, processes, personnel, and control systems that support risk-related decision making.
- Earnings workprogram – annually assesses, among other things, the level and quality of an FHLBank’s earnings, including management’s effectiveness at controlling costs.
- Internal and External Audit workprogram – biennially assesses the extent to which examiners can rely on internal and external audit when examining operations of the FHLBanks.

### ***Operating Procedures Bulletins***

DBR issues Operating Procedures Bulletins (OPBs) that set forth expectations for examiners who perform examinations of the FHLBank System, to include the following:

- 2012-DBR-OPB-03, Workprogram Minimum Frequency Guidelines, establishes minimum frequencies for the performance of the various individual workprograms used to conduct annual examinations within the FHLBank System. Minimum frequencies are based upon the relative volume, complexity, or importance of the FHLBank activities under review and establish a requirement for Examiner-in-Charge and Associate Director approval for deviations from the established minimum frequencies.<sup>3</sup>
- 2016-DBR-OPB-01, Federal Home Loan Bank Examination Workpaper Standards, establishes expectations for the standards and quality of examination deliverables, including: workprograms, activity memoranda, and conclusion memoranda to support findings and the ROE.
- 2017-DBR-OPB-01, FHLBank Adverse Examination Findings Processes, establishes various processes related to adverse examination findings that pose a risk to the safety and soundness of the FHLBanks. This OPB also sets forth the processes for instances

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<sup>3</sup> Minimum frequencies range from annual to quadrennial.

of non-compliance with laws and regulations, including the assessment of the FHLBanks' remediation efforts of adverse examination findings.<sup>4</sup>

- 2018-DBR-OPB-03, Quality Control Program, establishes guidance for implementing a quality control program. DBR's Quality Control Branch (QCB) performs reviews of examination workpapers intended to ensure high quality work products that adhere to DBR's standards and requirements.

Although DBR does not have a workprogram focused on employee expense reimbursement, any examination that touches on that issue is expected to meet the standards in these OPBs.

### **FHLBanks' Processes for Reimbursing Employee Expenses**

FHLBanks typically reimburse employees for travel-related and other business expenses incurred during approved FHLBank activities. FHLBank A uses an automated expense reimbursement system to process and track expense reports, while FHLBank B processes expense reports manually. Both FHLBanks' expense reimbursement policies require that employees' expense reports are supported by documentation, such as receipts for flights, hotel stays, meals, and rental vehicles. Further, these policies require that approved expense reports and associated documentation are submitted to each FHLBank's accounting department for reimbursement.

FHLBank A reported that reimbursed expenses for vice presidents and above totaled approximately \$8.4 million during our review period (calendar years 2016 through 2022). Of this amount, approximately \$1.5 million was reimbursed during the calendar years 2021 and 2022. During our review period for FHLBank B (calendar year 2021 and 2022), FHLBank B reimbursed approximately \$405,000 in expenses for vice presidents and above.

### **Concerns With Wasteful Spending and Potential Fraud in FHLBank Expense Reimbursements**

We conducted this audit in response to allegations of potential fraud and wasteful spending in expense reimbursements at FHLBank A pertaining to specific members of the FHLBank's management team. Previous press reports also disclosed instances of FHLBank employees fraudulently seeking expense reimbursements.

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<sup>4</sup> FHFA, Advisory Bulletin 2017-01, *Classifications of Adverse Examination Findings*, classifies adverse examination findings as Matters Requiring Attention, Recommendations, and Violations.



## FACTS AND ANALYSIS .....

### DBR Conducted Effective Oversight of Employee Expense Reimbursement Processes at FHLBank A and FHLBank B, But Lacked Documented Examination Guidance

#### *DBR Conducted Effective Oversight of Employee Expense Reimbursement Processes*

We found that DBR’s examinations of FHLBank A and FHLBank B policies and procedures, internal audit reports, and implementation of corrective actions were sufficient for overseeing employee expense reimbursement processes, which do not pose a safety and soundness risk to the FHLBank System. Specifically, DBR examiners developed their own procedures when they conducted reviews of the FHLBanks’ employee expense reimbursement policies and procedures, expense reimbursement internal audit reports, and related corrective actions.

#### FHLBank A

As described below, DBR was aware of findings concerning improper employee expense reimbursements at FHLBank A during the 2016 through 2022 scope period.

- 2016 Examination – DBR examiners reviewed employee expense reimbursement policies, including FHLBank A’s Reimbursement and Travel Expense Policy, Director Compensation & Expense Reimbursement Policy, and Codes of Conduct for Senior Officers and Board of Directors. DBR examiners concluded that these policies were adequate for governing travel and entertainment expenses and sampled five expense reports, finding consistent review and approval processes. Based on our review of DBR workpapers, FHLBank A’s internal audit did not provide internal audit reports on expense reimbursements within the scope of DBR’s examination period.
- 2017 Examination – DBR did not perform examination procedures on FHLBank A’s employee expense reimbursement process during this examination period. FHLBank A hired a law firm in 2017 to investigate allegations of inappropriate and excessive reimbursements made against then-employees as they were reported to DBR. Based on our review of DBR workpapers, FHLBank A’s internal audit did not provide internal audit reports on employee expense reimbursements within the scope of DBR’s examination period.
- 2018 Examination – DBR did not perform examination procedures on FHLBank A’s employee expense reimbursement process during this examination period. In March 2018, FHLBank A issued an internal audit report on its expense reimbursement process. FHLBank A’s internal audit found that, during the period of January 2016 through September 2017, it paid over \$300,000 in delinquent balances, including more

than \$27,000 in late fees and delinquency charges to prevent all corporate credit cards<sup>5</sup> from being suspended. These balances were all incurred by one department. The internal audit report also highlighted that due to FHLBank A's lack of limitations on card use for business-related expenses, FHLBank A might also cover employee personal expenses, potentially carrying tax implications. In response, FHLBank A updated its expense reimbursement policy and established a corporate credit card agreement to define cardholders' obligations.

- 2019 Examination – DBR reviewed FHLBank A's 2018 internal audit report on employee expense reimbursements and concluded that the audit was conducted in accordance with internal audit's methodology. Examiners also reviewed corrective actions taken by FHLBank A in response to recommendations in the 2018 internal audit report along with FHLBank A's Reimbursement and Travel Expense Policy. DBR concluded that the corrective actions were reasonable and appropriate. In addition, DBR made its own recommendation that FHLBank A should re-evaluate and strengthen its travel and expense related policies to clearly define roles, responsibilities, and timely submission requirements.
- 2020 Examination – DBR examiners reviewed the corrective actions and closed its 2019 recommendation. DBR did not perform any other specific examination procedures on FHLBank A's employee expense reimbursement process during this period.
- 2021 and 2022 Examinations – DBR did not perform examination procedures of FHLBank A's employee expense reimbursement process during these examination periods. Furthermore, DBR told us that they were unaware of FHLBank A's 2021 internal audit results. FHLBank A's internal audit reviewed the employee expense reimbursement process for all corporate credit cardholders following internal reports of continued delayed payment and personal charges. FHLBank A's internal audit found that as of August 2021 only seven employees possessed corporate credit cards. The internal audit review revealed that FHLBank A paid \$5,000 in late fees and delinquency charges, which included charges for two employees who were in the department cited in the 2018 internal audit report. FHLBank A management took disciplinary action against these employees for violating the credit card agreement in 2021 but did not attempt to recover any expenses from the employees.

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<sup>5</sup> At the time of the internal audit report, FHLBank A had 10 employees with corporate credit cards.

## FHLBank B

As described below, there were no concerns noted with employee expense reimbursements at FHLBank B during the scope period of 2021 through 2022.

- 2021 Examination – DBR did not perform any examination procedures related to FHLBank B’s expense reimbursement process. FHLBank B internal audit reviewed the chief executive officer’s travel with no findings or recommendations.
- 2022 Examination – DBR examiners reviewed the 2021 internal audit report on the chief executive officer’s travel, finding no concerns.

### ***DBR Lacks Documented Guidance for Examining FHLBanks’ Employee Expense Reimbursement Processes***

While DBR’s oversight of employee expense reimbursement processes at FHLBank A and FHLBank B was effective for the examination periods within the audit scope, we found that DBR lacks documented guidance for examining FHLBanks’ employee expense reimbursement processes. Instead, DBR examiners developed their own procedures to conduct reviews of the FHLBanks’ employee expense reimbursement policies and procedures, expense reimbursement internal audit reports, and related corrective actions. We noted certain inconsistencies in the scope and documentation of these reviews:

- DBR examiners did not fully document their 2022 examination analysis and results of FHLBank B’s employee expense reimbursement process. While FHLBank B’s employee expense reimbursement policy was included in DBR’s 2022 examination workpapers, these workpapers did not contain a documented examiner analysis of the policy.
- DBR examiners were unaware of FHLBank A’s 2021 internal audit results, noted above, which contained audit issues and recommendations that were similar to the 2018 internal audit.

According to the Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (Green Book), management should implement control activities through policies to address objectives and related risks.<sup>6</sup> The Green Book also states, “Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.”

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<sup>6</sup> GAO-14-704G, *Standards for Internal Control in the Federal Government* (September 2014).

DBR’s Deputy Director acknowledged that specific examination procedures had not been developed due to the low level of safety and soundness risk associated with expense reimbursements. Reimbursed expenses at FHLBanks A and B generally amount to less than one percent of their respective FHLBank’s annual operating expenses.

While employee expense reimbursements do not pose a safety and soundness risk to the FHLBank System, the concerns with wasteful and potentially fraudulent expense reimbursements, as alleged and in FHLBank internal audit findings, pose a risk to the public’s perception of integrity and trust in the FHLBank System. Without established guidance, DBR’s examiners may face challenges in completely and consistently evaluating whether an FHLBank’s management maintains effective internal controls over employee expense reimbursements that prevent, deter, and detect fraud or possible fraud.

## **FINDING .....**

DBR lacks documented guidance for examining FHLBanks’ employee expense reimbursement processes.

## **CONCLUSIONS .....**

We found that DBR’s examinations of FHLBank A and FHLBank B policies and procedures, internal audit reports, and implementation of correction actions were sufficient for overseeing employee expense reimbursement processes, which do not pose a safety and soundness risk to the FHLBank System. While DBR’s oversight was effective for the examination periods within the audit scope, we found that DBR lacks documented guidance for examining FHLBanks’ employee expense reimbursement processes.

## **RECOMMENDATIONS .....**

We recommend that the Deputy Director, DBR:

1. Develop and implement guidance documenting examination procedures for evaluating FHLBanks’ employee expense reimbursement processes. Guidance should include:  
(a) documenting examination analysis and results; and (b) following up on implementation of recommendations, including reviewing corrective actions.

2. Obtain and review FHLBanks' internal audit results on employee expense reimbursements for the years that DBR does not include these expenses in its examinations to ensure that DBR is aware of any findings related to wasteful or fraudulent spending.

## FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA management an opportunity to respond to a draft of this audit report. FHFA management provided a written response, which is included as an Appendix to this report. In its management response, FHFA agreed with our recommendations and included the following planned corrective actions:

1. DBR will enhance its supervision guidance to include considerations or steps for examiners when assessing employee expense reimbursements. DBR will complete its guidance revisions by June 30, 2024.
2. DBR will amend its routine exam planning documentation to include requests to the FHLBanks and Office of Finance for internal audits related to employee expense reimbursements. Further, along with the changes to examiner guidance planned in response to Recommendation 1, DBR will provide guidance to examiners on assessing these audit results from the FHLBanks. DBR will complete its revisions by June 30, 2024.

We consider FHFA's planned corrective actions responsive to our recommendations.

## OBJECTIVE, SCOPE, AND METHODOLOGY .....

Our objectives were to determine whether DBR conducted effective oversight of the FHLBanks' employee expense reimbursement processes and whether these processes presented a significant risk to the FHLBank System. The audit scope covered DBR's examination procedures for FHLBank A's expense reimbursement process during the period January 1, 2016, through December 31, 2022. As part of our testing of DBR's examination methodology, we included an examination of a second FHLBank's (FHLBank B) expense reimbursement process from January 1, 2021, through December 31, 2022.

To accomplish our objective, we performed the following procedures.

- Reviewed GAO's *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014) (Green Book). Determined that the control activities component of internal control was significant to this objective and focused on the underlying principles that management should (1) design control activities to achieve objectives and respond to risks and (2) implement control activities through policies.
- Reviewed and assessed DBR's compliance with the following FHFA and DBR guidance:
  - *FHFA Examination Manual* (December 2013)
  - 2012-DBR-OPB-03, Workprogram Minimum Frequency Guidelines (December 19, 2012; updated October 1, 2020)
  - 2016-DBR-OPB-01, Federal Home Loan Bank Examination Workpaper Standards (July 29, 2016; updated September 9, 2020)
  - 2017-DBR-OPB-01, Federal Home Loan Bank Adverse Examination Findings Processes (April 19, 2017; updated January 31, 2022)
  - 2018-DBR-OPB-03, Quality Control Program (December 26, 2018; updated December 21, 2021)
- Reviewed the following *FHFA Examination Manual* modules to determine whether there were specific examination procedures related to the assessment of an FHLBank employee expense reimbursement process:
  - Board of Directors and Senior Management Module (July 2018)
  - Earnings Module (July 2013)

- Internal and External Audit Module (November 2013)
- Fraud Overview and Fraud Risk Management Module (December 2016)
- Interviewed and obtained written responses from DBR personnel to understand DBR’s process for assessing the risk and planning examination work related to FHLBank employee expense reimbursement processes. DBR personnel included the Deputy Director, Associate Directors, Supervisory Examiner, Principal Examiners, and the Executive Advisor responsible for supervision of the FHLBanks.
- Reviewed workprograms for Board of Directors and Senior Management, Earnings, and Internal and External Audit for each examination performed during our review period at FHLBanks A and B to identify DBR examination procedures and conclusions related to employee expense reimbursement processes for each of the annual examination cycles in our review period. We tested these workpapers to determine whether they complied with 2016-DBR-OPB-01, Federal Home Loan Bank Examination Workpaper Standards, and provided evidence that the examiner performed independent analysis and clearly supported conclusions, findings, and ratings throughout the workprogram, activity memo, conclusions memo (if applicable), and Report of Examination.
- Assessed the remediation and compliance with 2017-DBR-OPB-01, Federal Home Loan Bank Adverse Examination Findings Processes, of one recommendation to improve FHLBank A’s employee expense reimbursement policy made during DBR’s execution of the 2019 FHLBank A Internal and External Audit workprogram.
- Reviewed DBR QCB General Review and Sectional Review Reports to determine compliance with 2018-DBR-OPB-03, Quality Control Program, and whether any significant issues related to employee expense reimbursement processes identified by QCB were resolved prior to the issuance of the Report of Examination and whether QCB findings were indicative of any systemic issues.
- Reviewed electronic files of executive expense reimbursements during our scope period provided by FHLBank A (expenses reimbursed 2016 through 2022) and FHLBank B (expenses reimbursed 2021 through 2022). Using GAO’s Assessing Data Reliability as guidance, we analyzed employee expense reimbursement data that included comparing the total of executive expense reimbursements for each FHLBank to its total operating expenses. We also made inquiries to FHLBanks about the nature and cause of high-dollar amount reimbursements. Based on our analysis, the data was sufficient for the purposes of our audit objectives.



We conducted this performance audit from February 2023 to September 2023 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX: FHFA MANAGEMENT RESPONSE.....

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# Federal Housing Finance Agency

## MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits

FROM: Joshua Stallings, Deputy Director, Division of FHLBank Regulation **JOSHUA STALLINGS**

SUBJECT: Draft Audit Report: *DBR Conducted Effective Oversight of FHLBanks' Employee Expense Reimbursement Processes But Lacked Documented Examination Guidance*

DATE: September 20, 2023

Digitally signed by  
JOSHUA STALLINGS  
Date: 2023.09.20  
13:54:52 -04'00'

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Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report. The objective of OIG's audit was to assess the Division of FHLBank Regulation's (DBR) oversight of FHLBank employee expense reimbursement processes. As government-sponsored enterprises, the FHLBanks must maintain high standards for safeguards against wasteful spending and fraud.

Although OIG found DBR's examinations in this area to be effective, the report makes two recommendations for improvements to examiner guidance. As outlined below, DBR agrees to both recommendations.

**Recommendation 1:** *Develop and implement guidance documenting examination procedures for evaluating FHLBanks employee expense reimbursement processes. Guidance should include: (a) documenting examination analysis and results; and (b) following up on implementation of recommendations including reviewing corrective actions.*

**Management Response:** FHFA agrees with the recommendation. DBR will enhance its supervision guidance to include considerations or steps for examiners when assessing employee expense reimbursements. Because this is not a significant safety and soundness issue and because DBR will review internal audit assessments per Recommendation 2, DBR does not expect examiner reviews to be completed frequently at FHLBank examinations. However, the guidance will be useful when the topic is in the scope of an examination. DBR will complete its guidance revisions by June 30, 2024.

**Recommendation 2:** *Obtain and review FHLBanks' internal audit results on employee expense reimbursements for the years that DBR does not include these expenses in its examinations to ensure that DBR is aware of any findings related to wasteful or fraudulent spending.*

**Management Response:** FHFA agrees with the recommendation. DBR will amend its routine exam planning documentation to include requests to the FHLBanks and Office of Finance for internal audits related to employee expense reimbursements. Further, along with the changes to examiner guidance planned in response to Recommendation 1, DBR will provide guidance to examiners on assessing these audit results from the FHLBanks. DBR will complete its revisions by June 30, 2024.

I would like to acknowledge the professionalism and rigor by the OIG staff who conducted this audit. If you have any questions relating to our response, please contact Richard Dalton.

cc: Edom Aweke  
John Major  
Richard Dalton

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