Message from the Inspector General

On behalf of the Office of Inspector General (OIG) of the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB), I am pleased to present our Semiannual Report to Congress, which highlights our accomplishments and ongoing work for the six-month period ending September 30, 2013.

In our prior Semiannual Report to Congress, I introduced our new vision, which underpins our strategic plan for 2013–2016: “To be the trusted oversight organization for the Board and the CFPB.” As we began to implement our strategic plan during this reporting period, we identified the following priorities.

We are striving to meet the needs of our stakeholders. Our new organizational framework, implemented at the end of the prior reporting period, enables us to provide more consistent and timely oversight of the Board and the CFPB while remaining sufficiently nimble to respond to changing circumstances. Further, our online Work Plan, which is updated about every two weeks, informs our stakeholders of our completed work, our work in progress, and our planned projects. This Work Plan provides stakeholders with an unparalleled level of transparency and real-time updates of our work.

We are focusing our oversight initiatives on alignment with the Board’s and the CFPB’s strategic goals. Examples of our work for the Board include projects on the cost management of the estimated $180 million project to renovate the Martin Building and construct a visitors’ center and conference center, the cost effectiveness and potential operational efficiencies of information technology services across Board divisions, and the economy and efficiency of the operations of the Board’s Law Enforcement Unit.

The CFPB is continuing to develop policies, procedures, and other safeguards around its operations. In its strategic plan, the CFPB has specifically indicated that it will focus on working to ensure “effective and efficient management, protection of the CFPB resources, rigorous internal controls, and full compliance with the
law.” Our ongoing audits and evaluations of the CFPB’s Civil Penalty Fund, supervision program, and hiring process, as well as its strategy to integrate enforcement attorneys into the examination process, will provide the CFPB with an objective perspective on these programs and processes and will offer sound recommendations for programmatic and operational improvements. In addition, the CFPB states that it will achieve its mission and vision through data-driven analysis and innovative use of technology. To that end, we have undertaken two information technology audits on the CFPB’s use of cloud computing, as well as the required annual audit of its information security program, to help the agency ensure that its data are appropriately protected.

**We are conducting audits and evaluations designed to identify operational and programmatic risks and make recommendations to reduce those risks.** We completed four important projects during the reporting period relating to internal controls, which are the first line of defense in safeguarding assets and preventing and detecting errors and fraud. For the Board, we found that it could benefit from an agency-wide process for maintaining and monitoring administrative internal control, and in a separate report, we found that the Board should strengthen controls over the handling of the Federal Open Market Committee meeting minutes to prevent future early releases of this information. For the CFPB, we audited its purchase card and government travel card programs and made recommendations to strengthen the internal controls of those programs. Effective internal controls in these programs will result in improved stewardship of government resources and better prevention and detection of fraud or mismanagement.

**We are engaging our stakeholders directly and frequently.** OIG officials meet with their Board and CFPB counterparts on a regular basis to glean their feedback on ongoing and planned audits, evaluations, and inspections. We have hosted officials from the Board and the CFPB to discuss with OIG staff the work they do, areas of risk they foresee, and meaningful oversight we can provide. Importantly, we reach out to members of Congress through briefings, correspondence, and other informal channels to ensure that they are accurately informed about the work we do, the authorities we have, and the seriousness with which we regard our oversight responsibilities for our two agencies. Issues we have discussed with Congress include information technology security,
contract management, internal controls, and bank supervision and regulation. Additionally, we are active in the Inspector General community, with our senior leadership holding positions on several committees of the Council of the Inspectors General on Integrity and Efficiency.

Our Office of Investigations continues to participate with our federal law enforcement partners in conducting complex fraud investigations. Our agents’ participation in these investigations over the past six months has resulted in multiple criminal sentencings, indictments, restitution orders, and fines totaling nearly $342 million. Our investigators are dedicated to the prevention of waste, fraud, and abuse, and they continue to work closely with our stakeholders on investigative matters.

I appreciate the continued support we have received from Board and CFPB senior management as we work toward improving the effectiveness and efficiency of their programs and operations. Finally, I would like to thank the OIG staff for implementing our new vision and for their exemplary work during this reporting period.

Sincerely,

Mark Bialek
Inspector General
October 31, 2013
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Consistent with our responsibilities under the Inspector General Act of 1978, as amended (IG Act), the Office of Inspector General (OIG) continued to promote the integrity, economy, efficiency, and effectiveness of the programs and operations of the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB). The following are highlights of our work during this semiannual reporting period.

Investigations

- We opened 11 cases and closed 6.
- We referred 12 matters to the prosecutor.
- We had 11 indictments and were responsible for nearly $342 million in criminal fines, restitution, and forfeiture.

Our most significant case is highlighted below.

**Sentencing for Former Senior Executives and a Favored Borrower of the Bank of the Commonwealth.** On May 24, 2013, after a 10-week trial, a former vice president and chief lending officer of the Bank of the Commonwealth, another former vice president, and a favored borrower who was a commercial real estate developer were convicted by a federal jury in the Eastern District of Virginia. They were found guilty of masking nonperforming assets at the Bank of the Commonwealth, a state member bank, for their own personal benefit and to the detriment of the bank. This long-running scheme contributed to the failure of the bank in 2011, costing the Federal Deposit Insurance Corporation (FDIC) an estimated $333 million. On September 16, 2013, the former vice president and chief lending officer was sentenced to 17 years in prison for conspiracy to commit bank fraud, false entries in bank records, misapplication of bank funds, and false statement to a financial institution. The court further ordered the former vice president and chief lending officer to pay $331.9 million in restitution to the FDIC and to forfeit $61.6 million in proceeds from the offense. On September 18, 2013, the commercial real estate developer was sentenced to 50 months in prison for conspiracy to commit bank
fraud, bank fraud, false statements to a financial institution, and aiding and abetting misapplication of bank funds. Further, the court ordered the commercial real estate developer to pay nearly $5 million in restitution to the FDIC and to forfeit $11.1 million in proceeds from the offense. On September 30, 2013, the other former vice president was sentenced to 8 years in prison for conspiracy to commit bank fraud, false entries in bank records, misapplication of bank funds, and false statement to a financial institution. The court further ordered the former vice president to pay $2.4 million in restitution to the FDIC and to forfeit $4.1 million in proceeds from the offense.

### Audits, Evaluations, and Inspections

- We issued 7 reports on the Board and 3 on the CFPB.
- We have 32 ongoing projects.

Below are some of the highlights.

**The Board’s Handling of the Federal Open Market Committee Meeting Minutes.** We evaluated the Board’s processes for distributing the approved Federal Open Market Committee (FOMC) minutes to Board staff prior to their public release and the Board’s management controls to prevent the early distribution of those minutes. The Board’s Chairman asked us to initiate this audit after an official in the Board’s Congressional Liaison Office e-mailed the FOMC meeting minutes to an e-mail distribution list on April 9, 2013, one day earlier than the scheduled release date. As a result, the Board issued the FOMC minutes at 9:00 a.m. on April 10, 2013, rather than the scheduled 2:00 p.m. release time. We found that certain Board offices were lacking relevant policies and procedures, that access to the FOMC minutes was not sufficiently restricted, and that certain staff did not adhere to the Board’s *Program for Security of FOMC Information*. We made four recommendations designed to strengthen the Board’s controls over the handling of the FOMC minutes. Management concurred with the recommendations and has initiated steps to implement them.

**Implementing a Board-Wide Process for Maintaining and Monitoring Administrative Internal Control.** We found that the Board’s processes for maintaining and monitoring administrative
internal control — internal control over the effectiveness and efficiency of operations and compliance with laws and regulations — can be enhanced. Although the Board is not subject to the Federal Managers’ Financial Integrity Act of 1982 (FMFIA), the Board decided to voluntarily comply with its spirit and intent shortly after its enactment. We believe that an agency-wide process that maintains, monitors, and reports on administrative internal control can assist the Board in effectively and efficiently achieving its mission, goals, and objectives, as well as address the organizational challenges outlined in the Board’s 2012–2015 strategic framework. We recommended that the Board develop and implement an agency-wide policy and process to more closely follow the spirit and intent of FMFIA and develop an associated training program. Management concurred with the recommendation’s intent.

**Ensuring the Integrity of the CFPB’s Government Travel Card Program.** We conducted an audit to determine the effectiveness of the CFPB’s internal controls for its government travel card (GTC) program. We found that internal controls for the CFPB’s GTC program should be strengthened to ensure program integrity. While controls over the GTC issuance process were designed and operating effectively, controls are not designed or operating effectively to (1) prevent and detect fraudulent or unauthorized use of GTCs and (2) provide reasonable assurance that cards are properly monitored and closed out. We made 14 recommendations designed to assist the CFPB in strengthening its internal controls over the GTC program. Management concurred with our recommendations and is planning to take actions to implement them.

**Strengthening Compliance with the CFPB’s Purchase Card Policies and Procedures.** We conducted an audit to assess whether the controls for the CFPB’s purchase card program were adequate to (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the CFPB’s policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards. We found that internal controls for the CFPB’s purchase card program are adequate and operating effectively. We noted, however, several instances of noncompliance with applicable policies and procedures. We made two recommendations designed to ensure that purchase cardholders and agency program coordinators exercise appropriate internal controls to ensure the
integrity of the purchase card program. Management concurred with our recommendations and has initiated steps to implement them.

**Preparing for and Responding to Emergency Events at the Board.** We conducted an evaluation of the Board’s policies and procedures for responding to unexpected emergency events and to assess communications protocols for processing and disseminating information to Board staff during such emergencies. We found that drills and exercises to prepare for emergencies did not fully incorporate all components of the Occupant Emergency Plan. In addition, we found that the floor warden program had challenges with respect to recruiting and retaining volunteers and that floor wardens are not completing annual training. Finally, we found that the Board does not have the ability to send public address announcements to employees working in leased office space because the buildings lack such a system. We made seven recommendations to improve the Board’s emergency preparedness. Management generally concurred with our recommendations.
Introduction

Congress established the OIG as an independent oversight authority of the Board, the government agency component of the broader Federal Reserve System, and the CFPB. Within this framework, the OIG conducts audits, investigations, and other reviews related to Board and CFPB programs and operations. By law, the OIG is not authorized to perform program functions.

Consistent with the IG Act, our office has the following responsibilities:

• to conduct and supervise independent and objective audits, investigations, and other reviews related to Board and CFPB programs and operations to promote economy, efficiency, and effectiveness within the Board and the CFPB

• to help prevent and detect fraud, waste, abuse, and mismanagement in Board and CFPB programs and operations

• to review existing and proposed legislation and regulations and make recommendations regarding possible improvements to Board and CFPB programs and operations

• to keep the Board of Governors, the Director of the CFPB, and Congress fully and currently informed

Congress has also mandated additional responsibilities that influence the OIG’s priorities, to include the following:

• Section 38(k) of the Federal Deposit Insurance Act, as amended (FDI Act), requires that the OIG review failed financial institutions supervised by the Board that result in a material loss to the Deposit Insurance Fund (DIF) and produce a report within six months. Section 38(k) also requires that the OIG report on the results of any nonmaterial losses to the DIF that exhibit unusual circumstances. For those in-depth reviews, we report our results in a manner similar to a material loss review. For nonmaterial losses that do not exhibit unusual circumstances, we have summarized the results of our assessments in table 9 on page 49 in accordance with the requirements of section 38(k).
• Section 211(f) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires that the OIG review the Board's supervision of any covered financial company that is placed into receivership and produce a report that evaluates the effectiveness of the Board's supervision, identifies any acts or omissions by the Board that contributed to or could have prevented the company's receivership status, and recommends appropriate administrative or legislative action.

• Section 989E of the Dodd-Frank Act established the Council of Inspectors General on Financial Oversight (CIGFO), which comprises the Inspectors General (IGs) of the Board, the Commodity Futures Trading Commission, the Department of Housing and Urban Development, the U.S. Department of the Treasury (Treasury), the FDIC, the Federal Housing Finance Agency, the National Credit Union Administration, the Securities and Exchange Commission, and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). CIGFO is required to meet at least quarterly to share information and discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. Additionally, CIGFO is required to issue a report annually that highlights the IGs’ concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO also has the authority to convene a working group of its members to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council (FSOC), which was created by the Dodd-Frank Act and is charged with identifying threats to the nation's financial stability, promoting market discipline, and responding to emerging risks to the stability of the nation's financial system.

• With respect to information technology (IT), the Federal Information Security Management Act of 2002 (FISMA) established a legislative mandate for ensuring the effectiveness of information security controls over resources that support federal operations and assets. Consistent with FISMA requirements, we perform annual independent reviews of the Board's and the CFPB's information security programs and practices, including the effectiveness of security controls and techniques for selected information systems.
• The USA Patriot Act of 2001 grants the Board certain federal law enforcement authorities. Our office serves as the external oversight function for the Board’s law enforcement program.

• Section 11B of the Federal Reserve Act mandates annual independent audits of the financial statements of each Federal Reserve Bank and of the Board. We oversee the annual financial statement audits of the Board and of the Federal Financial Institutions Examination Council (FFIEC). (The Board performs the accounting function for the FFIEC.) The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency (OCC), and the CFPB and to make recommendations to promote uniformity in the supervision of financial institutions. (Under the Dodd-Frank Act, the Government Accountability Office performs the financial statement audits of the CFPB.)
Audits, Evaluations, and Inspections

Audits assess aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. For example, the OIG oversees audits of the Board’s financial statements and financial performance reports, and it conducts audits of: (1) the efficiency and effectiveness of processes and internal controls over agency programs and operations; (2) the adequacy of controls and security measures governing agency financial and management information systems and the safeguarding of assets and sensitive information; and (3) compliance with applicable laws and regulations related to agency financial, administrative, and program operations. As mandated by the IG Act, OIG audits are performed in accordance with the Government Auditing Standards established by the Comptroller General.

Inspections and evaluations include program evaluations, enterprise risk-management activities, process design and life-cycle evaluations, and legislatively mandated reviews of failed financial institutions supervised by the Board. Inspections are generally narrowly focused on a particular issue or topic and provide time-critical analysis that cuts across functions and organizations. In contrast, evaluations are generally focused on a specific program or function and may make extensive use of statistical and quantitative analytical techniques. Evaluations can also encompass other preventive activities, such as reviews of system development life-cycle projects. OIG inspections and evaluations are performed according to the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The information below summarizes OIG work completed during the reporting period and ongoing work that will continue into the next semiannual reporting period.
We initiated this audit at the request of the Board’s Chairman. An official in the Board’s Congressional Liaison Office (CLO) e-mailed the FOMC meeting minutes to an e-mail distribution list (CLO contact list) on April 9, 2013, one day earlier than the scheduled release date. As a result, the Board issued the FOMC minutes at 9:00 a.m. on April 10, 2013, rather than the scheduled 2:00 p.m. release time. Our audit objectives were to evaluate the Board’s processes for distributing the approved FOMC minutes to Board staff prior to their public release and the Board’s management controls to prevent the early distribution of those minutes.

During the three-week period following an FOMC meeting, the meeting minutes are drafted, edited, and approved prior to public release. The FOMC minutes are finalized approximately 24 hours prior to publication and loaded into the Board’s publication system. FOMC Secretariat staff notify Office of Board Members staff that the FOMC minutes are ready for publication. Subsequently, Office of Board Members staff prepare the minutes to be released to the public. The Program for Security of FOMC Information describes who is responsible for ensuring that FOMC information, including the FOMC minutes, is safeguarded and how it should be handled.

While CLO and the Board’s Public Affairs Office staff are required to properly safeguard FOMC information in accordance with the Program for Security of FOMC Information, the Office of Board Members has not established formal written management controls to ensure that the Division Director’s directives regarding the CLO contact list and publication of the FOMC minutes are implemented. We noted that the CLO did not have written policies and procedures related to the dissemination of information to the CLO contact list. In addition, neither the CLO nor the
Public Affairs Office had written policies and procedures regarding the business processes that require access to the FOMC minutes.

Public Affairs Office and CLO staff also did not handle the FOMC minutes in accordance with the Program for Security of FOMC Information. Before being given access to confidential FOMC information, including the FOMC minutes, Board staff members agree to abide by the Program for Security of FOMC Information, which incorporates the Board’s Information Classification and Handling Standard. Although the Board provides required annual training that covers the Information Classification and Handling Standard, training on FOMC-specific information-handling requirements is not provided.

The Program for Security of FOMC Information requires that access to FOMC information be limited to those with a strict need to know. However, the access control list for the publication system included two Board staff members who may not have needed access to the system, and Division of Monetary Affairs staff did not limit access to the FOMC minutes to a subset of users on the publication system access control list with a need to know.

We made four recommendations designed to strengthen the Board’s controls over the handling of the approved FOMC minutes prior to public release. Management concurred with the recommendations and has initiated steps to implement them. Management also stated that it has taken actions to improve compliance with the Program for Security of FOMC Information.

The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control


Our objective for this audit was to determine the processes for establishing, maintaining, and monitoring internal control within the Board. We focused on internal control over the effectiveness and efficiency of operations and compliance with laws and regulations, i.e., administrative internal control. Internal control is an integral part of managing an organization and is critical to improving organizational effectiveness and accountability. It comprises the plans, methods, and procedures used to meet the
organization's mission, goals, and objectives. Internal control is the first line of defense in safeguarding assets and preventing and detecting errors and fraud; thus, it helps organizations achieve desired results through effective stewardship of government resources.

FMFIA requires that each executive agency establish internal accounting and administrative controls in compliance with standards established by the Government Accountability Office and prepare an annual statement on internal control based on an evaluation performed using Office of Management and Budget (OMB) guidelines. Although the Board is not subject to FMFIA, the Board decided to voluntarily comply with the spirit and intent of FMFIA shortly after its enactment.

We found that the Board’s divisions have processes for establishing administrative internal control that are tailored to their specific responsibilities. These controls generally use best practices and are designed to increase efficiency and react to changing environments; however, the Board’s processes for maintaining and monitoring these controls can be enhanced. Specifically, we found that the Board does not have an agency-wide process for maintaining and monitoring its administrative internal control. The Board’s approach to addressing the provisions of FMFIA does not require management to assess and monitor administrative internal control. We believe that an agency-wide process that maintains, monitors, and reports on administrative internal control can assist the Board in effectively and efficiently achieving its mission, goals, and objectives, as well as address the organizational challenges outlined in the Board’s 2012–2015 strategic framework.

We recommended that the Chief Operating Officer designate responsible officials or an office to develop and implement an agency-wide policy and process to more closely follow the spirit and intent of FMFIA and develop a training program to increase staff awareness about maintaining and monitoring administrative internal control. Management concurred with the recommendation’s intent, stating that the Board has already implemented, or is in the process of implementing, several enhanced administrative processes. Management added that it will evaluate whether and in what form an agency-wide framework makes sense, given the priorities and budgetary constraints underlying the Board’s new strategic framework, and that it will coordinate with
The Board Should Improve Procedures for Preparing for and Responding to Emergency Events


Our objectives for this evaluation were to assess the Board’s policies and procedures for responding to unexpected emergency events and to assess communications protocols for processing and disseminating information to Board staff during such emergencies. The Board has a crisis management structure in place and has procedures to prepare for and respond to emergency events. Key components of the crisis management structure are the Crisis Leadership Team, which ensures the continuity of Board operations and essential functions, and the Crisis Support Team, which manages the actual emergency.

During an emergency, the Law Enforcement Unit (LEU) Chief serves as the Crisis Support Team lead and incident commander. Floor wardens assist the LEU during emergencies by ensuring that employee evacuations are quick, orderly, and safe. The LEU’s Safety and Emergency Preparedness Bureau performs considerable planning and other activities to prepare for emergencies, including conducting annual floor warden training. The bureau also prepares the Board’s Occupant Emergency Plan, which describes the roles and responsibilities for employees, contractors, and visitors, as well as the responsibilities for components of the crisis management structure.

We found that drills and exercises to prepare for emergencies did not fully incorporate all components of the Occupant Emergency Plan. The Crisis Leadership Team did not convene during drills to make critical decisions to ensure that Board operations and essential functions continued with minimal disruption, and employees were not fully accounted for after the drills. In addition, tabletop exercises, an emergency preparedness best practice, were not routinely performed because they are not required. Incomplete drills and the absence of full-scale tabletop exercises to supplement the drills decrease the likelihood of appropriate responses to emergencies.
In addition, we found that the floor warden program has challenges recruiting and retaining volunteers, and we found that floor wardens are not completing annual training. Therefore, the Board lacks assurance that there will be a sufficient number of trained floor wardens available during actual emergencies to assist in the safe, orderly movement of employees, including those who require assistance due to physical limitations.

Finally, we found that the Board does not have the capability to send public address announcements to employees working in leased office space because the buildings lack such a system. Employees may receive crucial information via telephone, intranet, e-mail, text, or word of mouth. This limitation increases the risk that employees may not receive the appropriate instructions simultaneously and in a timely manner and may make uninformed decisions that could place them in harm’s way.

We made seven recommendations to improve the Board’s emergency preparedness. We recommended that the Crisis Leadership Team convene during evacuation drills, that employees be accounted for after drills and emergencies, and that full-scale tabletop exercises be conducted as an additional training tool. We also recommended that floor wardens complete annual training, that division directors be required to recruit floor wardens, and that the floor warden roster be kept up to date. Finally, we recommended that all Board employees working in leased office spaces receive critical information simultaneously and in a timely manner. Management generally concurred with our recommendations.

Board Should Enhance Compliance with Small Entity Compliance Guide Requirements Contained in the Small Business Regulatory Enforcement Fairness Act of 1996

OIG Report No. 2013-AE-B-008

July 1, 2013

In this evaluation, we assessed the Board’s compliance with certain requirements of the Small Business Regulatory Enforcement Fairness Act of 1996, as amended (SBREFA). We initiated this evaluation to determine the validity of a complaint received by the OIG Hotline concerning the Board’s compliance with SBREFA.

SBREFA became law in 1996 and was later amended by the Small Business and Work Opportunity Act of 2007 to include specific
requirements for small entity compliance guides. These guides are created by federal rulemaking agencies to explain the actions a small entity should take to comply with a rule. Section 605(b) of SBREFA generally allows the agency head to certify in the Federal Register, as part of the proposed or final rule, that the final rule will not have a significant economic impact on a substantial number of small entities. In such cases, a compliance guide does not have to be created. The 2007 amendments to SBREFA also included a congressional reporting requirement.

We found that the Board was not consistent in developing or updating small entity compliance guides in accordance with SBREFA requirements. In addition, the Board’s compliance guides did not consistently provide clear guidance to small entities explaining how to comply with certain rules or when the requirements of the specific rules would be satisfied. Instead, many of the guides merely restated and summarized each section of the rules.

We also reviewed the Board’s compliance with the annual congressional reporting requirement to describe the status of the agency’s compliance with the small entity compliance guide requirements created by the 2007 amendments to SBREFA. We requested documentation evidencing that the annual congressional reporting requirement had been satisfied, but we did not receive any.

We recommended that the Board establish centralized oversight and a standard method or approach for creating small entity compliance guides. We also recommended that the Board begin submitting the annual reports describing the agency’s compliance with small entity compliance guide requirements to the relevant congressional committees as required by section 212(a)(6) of SBREFA. Management concurred with our recommendations and stated that it will take steps to implement them.

Security Control Review of a Third-party Commercial Data Exchange Service Used by the Board’s Division of Banking Supervision and Regulation

OIG Report No. 2013-IT-B-010 August 6, 2013

FISMA requires the OIG to evaluate the effectiveness of the information security controls and techniques for a subset of the
Board’s information systems, including those provided or managed by another agency, a contractor, or another organization. As part of the OIG’s work to fulfill this requirement, we reviewed the information system security controls for a third-party commercial data exchange service. Specifically, our audit objective was to evaluate the adequacy of selected security controls for protecting Board data from unauthorized access, modification, destruction, or disclosure, as well as compliance with FISMA and the information security policies, procedures, standards, and guidelines of the Board.

The Board’s Division of Banking Supervision and Regulation (BS&R) uses the commercial data exchange service to securely exchange sensitive business information with financial institutions. The service is listed on the Board’s FISMA inventory as a third-party application maintained by the Federal Reserve Bank of Philadelphia. BS&R is assigned overall responsibility for ensuring that the system meets FISMA requirements.

Overall, we found that the Board has taken steps to secure the third-party commercial data exchange service. However, we found that improvements are needed to ensure that the requirements of FISMA and the Board Information Security Program are met.

We made 11 recommendations to BS&R to strengthen security controls for the system. Management concurred with 10 recommendations and partially concurred with one recommendation. For the 10 recommendations with which management concurred, it outlined actions that have been taken, are underway, or are planned to address the recommendations. For the recommendation with which management partially concurred, it outlined planned actions that are responsive to the intent of the recommendation. We will follow up on the implementation of each recommendation as part of our future audit activities related to the Board’s continuing implementation of FISMA.
Center that is specifically designed to support bank supervision, and it is listed as a major application on the Board’s FISMA inventory for BS&R. Specifically, our audit objective was to evaluate the adequacy of certain control techniques designed to protect data in the system from unauthorized access, modification, destruction, or disclosure, as well as the system’s compliance with FISMA and the information security policies, procedures, standards, and guidelines of the Board.

We found that, in general, controls for NED are adequately designed and implemented. However, we found that improvements are needed to ensure that the requirements of FISMA and the Board Information Security Program are met. We made four recommendations designed to strengthen security controls for the system. Our report also included a matter for management’s consideration. Management concurred with our recommendations and outlined actions that have been taken, are underway, or are planned to address the recommendations. We will follow up on the implementation of each recommendation in this report as part of our future audit activities related to the Board’s continuing implementation of FISMA.

**Results from OIG Vulnerability Scanning of Select Servers for the Board’s Information Technology and Management Divisions**

JUNE 19, 2013

During this reporting period, we issued a management letter that documented our IT vulnerability scanning results and provided two suggestions to the Board for strengthening security controls. We conducted our scanning to support our annual audit of the Board’s information security program pursuant to FISMA. FISMA requires agencies to develop, document, and implement an information security program that, among other things, includes periodic risk assessments of the harm that could result from vulnerabilities within information systems. One component of an agency’s risk-management program is vulnerability scanning. *Vulnerability scanning* commonly refers to using automated tools to identify vulnerabilities in information systems resulting from outdated software versions, missing patches, and misconfigurations.
Status of the Transfer of Office of Thrift Supervision Functions
OIG Report No. 2013-AE-B-014
September 26, 2013

Title III of the Dodd-Frank Act established provisions for the transfer of authorities from the Office of Thrift Supervision (OTS) to the OCC, the FDIC, and the Board within one year after the July 21, 2010, enactment date. Title III transferred to the Board, on July 21, 2011, the functions and rulemaking authority for consolidated supervision of savings and loan holding companies and their nondepository subsidiaries. The Dodd-Frank Act required that, within 180 days after its enactment, the OTS, the OCC, the FDIC, and the Board jointly submit a plan—the Joint Implementation Plan—to Congress and the IGs of Treasury, the FDIC, and the Board that detailed the steps each agency would take to implement the title III provisions. The Joint Implementation Plan was submitted to Congress and the IGs on January 25, 2011. The Dodd-Frank Act also required the IGs to determine whether the implementation plan conformed to the title III provisions. On March 28, 2011, the IGs jointly issued a report concluding that the actions described in the Joint Implementation Plan generally conformed to the provisions of title III.

Section 327 of title III requires the IGs to report on the status of the implementation of the Joint Implementation Plan every six months. The IGs have issued five status reports to date, the latest of which was issued during this reporting period, on September 26, 2013. These joint reports, all of which are titled Status of the Transfer of Office of Thrift Supervision Functions, concluded that the Board, the FDIC, the OCC, and the OTS have substantially implemented actions to transfer OTS functions, employees, funds, and property to the Board, the FDIC, and the OCC, as appropriate. The first four reports noted that the Board was still implementing certain aspects of the plan.

As previously reported, for savings and loan holding companies and bank holding companies with consolidated assets of $50 billion or more, and for nonbank financial companies that the Board is required to supervise pursuant to the Dodd-Frank Act, the Board is to collect assessments, fees, or other charges equal to the expenses the Board estimates are necessary or appropriate to carry out its supervisory and regulatory responsibilities. To address
this requirement, the Board’s notice of proposed rulemaking for comment on the assessments, fees, and other charges was published in the April 18, 2013, Federal Register. The September 26, 2013, report noted that the rulemaking for the collection of supervisory assessments by the Board was finalized. In its written response to the September 26, 2013, report, the Board stated that it agreed with the IGs’ conclusions regarding the assessments, fees, and other charges required pursuant to the Dodd-Frank Act.

Prepared by the Council of Inspectors General on Financial Oversight

In 2013, our office participated in a working group convened by CIGFO to examine the rules, procedures, and practices established by FSOC and its member agencies to designate financial market utilities (FMUs) as systemically important and therefore subject to the requirements of title VIII of the Dodd-Frank Act. In addition, the working group made inquiries regarding FSOC’s processes to designate payment, clearing, and settlement activities conducted by financial institutions as systemically important.

The working group determined that FSOC carried out the designation activities as established in title VIII. FSOC created the Designations of Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee, which carried out its activities in the designation process as intended by FSOC.

During the designation process, FSOC did not consider for designation foreign-based FMUs; retail FMUs; or payment, clearing, and settlement activities conducted by financial institutions. The working group was told that FSOC continues to consider designating foreign-based FMUs and payment, clearing, and settlement activities.

The working group made several recommendations regarding establishing a formal structure for the FMU committee; determining a course of action for foreign-based FMUs; continuing discussion of the process and rules regarding possible future designation of payment, clearing, and settlement activities; defining
parameters for updates on designated FMUs from their respective regulators; and establishing a timeline for periodic reviews of nondesignated FMUs that may subsequently be designated as systemically important. The working group considered FSOC’s response and planned actions regarding the recommendations to be responsive.

Work in Progress

Review of the Federal Reserve’s Supervisory Activities Related to the Loss at JPMorgan Chase & Co.’s Chief Investment Office

We continued fieldwork for our evaluation of the Federal Reserve’s supervisory activities related to the multibillion-dollar loss at JPMorgan Chase’s Chief Investment Office. Our objectives for this evaluation are to (1) assess the effectiveness of the Board’s and the Federal Reserve Bank of New York’s consolidated and other supervisory activities regarding JPMorgan Chase’s Chief Investment Office and (2) identify lessons learned for enhancing future supervisory activities.

Audit of the Board’s Information Security Program

During this reporting period, we began our annual audit of the Board’s information security program and practices. This audit is being performed pursuant to FISMA, which requires each agency IG to conduct an annual independent evaluation of the agency’s information security program and practices. Our specific audit objectives are to evaluate the effectiveness of security controls and techniques for selected information systems and to evaluate compliance by the Board with FISMA and related information security policies, procedures, standards, and guidelines provided by the National Institute of Standards and Technology (NIST), OMB, and the Department of Homeland Security. In accordance with reporting requirements, our FISMA review includes an analysis of the Board’s security-related processes in the following areas: risk management, continuous monitoring management, plan of action and milestones, identity and access management, remote access management, configuration management, security training,
contractor systems, contingency planning, incident response and reporting, and security capital planning. We expect to complete this project and issue our final report in the next reporting period.

**Audit of the Board's Cost Estimates Associated with the Martin Building Construction and Renovation Project**

We initiated an audit to assess how the estimated costs for the Martin Building construction and renovation project were determined and how these costs will be managed within the Board's strategic framework. The Board’s strategic framework for the period 2012–2015 identified that upgrades to the Martin Building’s physical infrastructure were necessary to ensure that the work environment is safe, secure, and modern and to reduce utility consumption and expenses. A comprehensive renovation of the Martin Building, including the construction of a conference center and a visitors’ center, will address these concerns and will require significant capital investments. The importance of the Martin Building project specifically and the overall need to achieve significant cost savings throughout the Board are critical components of the Board’s strategic framework. We expect to complete this review and issue our final report in the next reporting period.

**Inspection of the Board's Law Enforcement Unit**

The OIG is required by the *Uniform Regulations for Federal Reserve Law Enforcement Officers* to periodically inspect the Board’s LEU. Our objective for this inspection is to assess compliance with the *Uniform Regulations for Federal Reserve Law Enforcement Officers*, Board and LEU internal policies and procedures, and applicable laws. The USA Patriot Act of 2001 granted the Board certain federal law enforcement authorities. To implement these authorities, the Board promulgated the *Uniform Regulations for Federal Reserve Law Enforcement Officers* in 2002. The regulations designated the Board’s OIG as the external oversight function responsible for reviewing and evaluating the Board’s law enforcement programs and operations, and we are conducting this inspection as part of our external oversight responsibilities. We completed our fieldwork during this reporting period, and we expect to issue our report during the next reporting period.
Evaluation of the Operational Components of the Board’s Law Enforcement Unit

We initiated an evaluation of the operational components of the Board’s LEU. The LEU safeguards most Board-designated property and personnel 24 hours a day, 7 days a week. In the Board’s strategic framework for the next three years, the sixth strategic theme is to establish a cost-reduction approach for Board operations that maintains an effective and efficient use of financial resources. Accordingly, the Board’s Management Division, which includes the LEU, has linked its objectives to the strategic framework and is working to identify opportunities for potential cost savings and to improve operational efficiencies. Our objective for this evaluation is to assess the economy and efficiency of the LEU, including the various operational components within the organization. During the evaluation, we will consider the LEU’s cost-reduction efforts already in process, assess the use of staffing models (e.g., roles and responsibilities and staff resources), and identify potential enhancements to LEU operations that may more effectively use security technology.

Audit of the Provisioning of Information Technology Services across Board Divisions

We completed fieldwork and have briefed Board management on an audit of the Board’s IT services. Our audit objectives are to identify (1) how IT services are provided across the organization and (2) the potential to enhance operational efficiencies. In the Board’s strategic framework for the next three years, the sixth strategic theme is to establish a cost-reduction approach for Board operations that maintains an effective and efficient use of financial resources. Accordingly, Board divisions have linked their objectives to the strategic framework and are working to identify opportunities for potential cost savings and improved operational efficiencies. We expect to issue our final report in the next reporting period.

Development of a Comprehensive Audit Plan of the Board’s Functions and Operations

The OIG has initiated a planning effort for audits and evaluations that includes reviewing aspects of the Board’s operations to identify
an audit universe of core functions at the organization, division, and office levels. Our risk-based planning activities are designed to allow us to target our independent oversight of those programs and operations to which we can add value by providing timely products and services that will produce positive, measurable results. This analysis will facilitate the scheduling of projects to be undertaken in 2014 and the development of a multiyear general plan for subsequent years.

**Audit of the Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ending December 31, 2013, and 2012**

We contract for an independent public accounting firm to annually perform an integrated audit of the Board’s financial statements. The accounting firm performs the audit in accordance with generally accepted government auditing standards and expresses an opinion on the Board’s financial statements. In addition, as part of the integrated audit, and in accordance with the auditing standards of the Public Company Accounting Oversight Board, the independent auditors perform an audit of the effectiveness of internal controls over financial reporting and express an opinion on these controls. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, evaluating the appropriateness of the accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation. The audit also involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control. We oversee the activities of the independent public accounting firm to ensure compliance with generally accepted government auditing standards and Public Company Accounting Oversight Board auditing standards related to internal controls over financial reporting.

In accordance with generally accepted government auditing standards, the independent auditors also will perform tests of the Board’s compliance with certain provisions of laws and regulations, since noncompliance with these provisions could have a direct and material effect on the determination of the financial statement
amounts. The independent auditors’ reports will be issued in the next semiannual reporting period.

Audit of the Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ending December 31, 2013, and 2012

The Board performs the accounting function for the FFIEC, and we contract for an independent public accounting firm to annually audit the FFIEC’s financial statements. The accounting firm performs the audit in accordance with generally accepted government auditing standards and expresses an opinion on the FFIEC’s financial statements. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit also includes an evaluation of the appropriateness of accounting principles used and significant accounting estimates made by management, as well as an evaluation of the overall financial statement presentation. We oversee the activities of the independent public accounting firm to ensure compliance with generally accepted government auditing standards.

In accordance with generally accepted government auditing standards, the independent auditors also will consider the FFIEC’s internal controls over financial reporting and will perform tests of the FFIEC’s compliance with certain provisions of laws and regulations, since noncompliance with these provisions could have a direct and material effect on the determination of the financial statement amounts. The independent auditors’ reports will be issued in the next semiannual reporting period.

Evaluation of the Board’s Policies, Procedures, and Practices Associated with Agency-Sponsored Conferences

We initiated an evaluation of the Board’s conference-related activities. The objectives of our evaluation focus on determining the controls, policies, procedures, and practices associated with conferences. The review is limited to conference activities sponsored by the Board. We plan to issue our report during the next semiannual reporting period.
Evaluation of the Board's Corporate Services

The OIG is conducting an evaluation of the Board’s corporate services function to determine the extent to which Board staff use such services and to identify potential economies and efficiencies. We completed fieldwork for the mail services section of the corporate services evaluation, and we are continuing with the evaluation of the motor transport and print shop services. In the Board’s strategic framework for the next three years, the sixth strategic theme is to establish a cost-reduction approach for Board operations that maintains an effective and efficient use of financial resources. Accordingly, Board divisions, such as the Management Division, have linked their objectives to the strategic framework and are working to identify opportunities for potential cost savings and to improve operational efficiencies. We expect to complete our evaluation during the next semiannual reporting period.

Evaluation of Enforcement Actions against Institution-Affiliated Parties

In 2013, the OIGs for the Board, the FDIC, and the OCC initiated a joint evaluation of the processes for initiating enforcement actions and professional liability claims against institution-affiliated parties of failed institutions. Our objectives are to (1) describe the process for initiating enforcement actions against institution-affiliated parties for state member banks, (2) report the results of the Board’s efforts in investigating and pursing enforcement actions against institution-affiliated parties with a focus on individuals associated with failed state member banks, and (3) identify key factors that may impact the pursuit of enforcement actions against institution-affiliated parties.

Evaluation of the Board's Oversight of Mortgage Servicing Enforcement Actions and Settlement Agreements

We are conducting an evaluation of the Board’s oversight of a settlement with mortgage servicers for alleged deficient mortgage foreclosure practices. In January 2013, the Board and the OCC announced a settlement with mortgage servicers to compensate borrowers who were potentially harmed. The settlement covers
borrowers who had a mortgage on their primary residence that was in any stage of foreclosure in 2009 or 2010 and that was serviced by one of the participating servicers. The settlement required mortgage servicers to slot the borrowers into various categories based on possible harm. The Board and the OCC associated payment amounts with each category. The amounts range from $300 to $125,000. A paying agent was hired by the servicers to mail checks, totaling about $3.6 billion, to approximately 4.2 million borrowers. Our objectives are to (1) evaluate the Board’s overall approach to oversight of the settlement, (2) determine the effectiveness of the Board’s oversight of the slotting process, and (3) determine the effectiveness of the Board’s oversight of the payment process executed by the paying agent.

Audit of the Division of Reserve Bank Operations and Payment Systems’ Oversight of Reserve Banks’ Wholesale Financial Services

We initiated an audit of the Division of Reserve Bank Operations and Payment Systems’ (RBOPS’s) oversight of Reserve Banks’ wholesale financial services. Our objective is to assess the extent and effectiveness of RBOPS’s oversight of those services. Specifically, we will review how RBOPS assesses wholesale services against the standards defined in the Federal Reserve Policy on Payment System Risk to determine whether the payment and settlement systems incorporate (1) an appropriate risk-management framework and (2) the internationally accepted guidelines in their policies and procedures. We have completed the majority of our fieldwork, and we expect to issue our final report during the next semiannual reporting period.

Audit of the Division of Banking Supervision and Regulation’s Validation Process for Models Used during the Annual Comprehensive Capital Analysis and Review

We are conducting an audit of BS&R’s model risk-management processes for the supervisory models used in support of the annual Comprehensive Capital Analysis and Review (CCAR). CCAR is an annual exercise by the Federal Reserve System to ensure that institutions have robust, forward-looking capital planning processes that account for their unique risks and that they have sufficient
capital to continue operations throughout times of economic and financial stress. CCAR includes a supervisory stress test to support the Federal Reserve System’s analysis of the adequacy of the firms’ capital. Our review assesses the overall effectiveness of the model risk-management framework pertaining to the supervisory models, including a wide spectrum of current model risk-management practices and the related policies and procedures. The objectives of our audit are to (1) assess the extent to which the Federal Reserve System’s model risk-management procedures for CCAR stress-testing supervisory models are consistent with Supervision and Regulation Letter 11-7 on model risk management and (2) assess whether the model risk-management practices are consistent with internal policies and procedures.

**Audit of the Relocation of the Board’s Data Center**

We have been conducting an audit of the Board’s relocation of its data center. The relocation of the data center is a multiyear project that is planned to be completed in 2015. We are monitoring the project and will issue reports at key points. Our objectives during the initial audit are to obtain information and gain an understanding of the project’s scope, cost, and schedule. We plan to issue an interim report in the next semiannual reporting period.

**Security Control Review of the E2 Solutions Travel System**

During this reporting period, we initiated a security control review of the E2 Solutions Travel System. E2 Solutions Travel System is a web-based, end-to-end travel management system to plan, authorize, arrange, process, and manage official federal travel. This application is listed on the Board’s FISMA inventory as a third-party system. Our objectives are to (1) evaluate the adequacy of certain control techniques designed to protect data in the system from unauthorized access, modification, destruction, or disclosure and (2) assess compliance with Board Information Security Program and FISMA requirements. We expect to complete the review and issue our final report during the next semiannual reporting period.
Audit of the Board’s STAR Modernization Project

We are conducting an audit of the STAR modernization project. STAR is the central computer application used by the statistics function at the Federal Reserve Banks and the Board to collect and edit over 75 periodic statistical reports from financial institutions. Our audit focuses on the adequacy and internal controls of the development process for the new system, including the cost and schedule. In addition, we are assessing how security controls are being built into the system. We expect to complete this project and issue our final report in the next reporting period.

Audit of the Board's Information Technology Contingency Planning and Continuity of Operations Program

We are conducting an audit of the Board’s IT contingency planning and its continuity of operations program. Our audit focuses on determining whether the Board’s program is consistent with federal guidelines, and we are reviewing how the Board’s contingency planning and its continuity of operations program provide a coordinated strategy involving plans, procedures, and technical measures that enable the recovery of information systems, operations, and data after a disruption. In addition, we are reviewing the cost of maintaining the Board’s IT continuity of operations program to identify cost savings and opportunities to enhance efficiencies. We plan to issue an interim report in the next semiannual reporting period.

Response to a Congressional Request Regarding the Board’s Compliance with Federal Requirements for Addressing Climate Change

We received a letter from the co-chairs of the Bicameral Task Force on Climate Change regarding the actions taken by the Board in response to climate change. In the letter, the task force requested the identification of existing requirements in legislation, regulation, executive order, and other directives that apply to the Board and our assessment of how the Board is meeting these requirements. The task force also requested the identification of the Board’s authorities to reduce emissions of heat-trapping pollution and to make the
nation more resilient to the effects of climate change. During this reporting period, we provided an initial reply to the task force, noting that we had requested that the Board’s General Counsel determine the federal requirements that apply to both components of the request. We have completed our assessment of the Board’s response and will issue a final response during the next reporting period.

Table 1: Audit, Inspection, and Evaluation Reports Issued to the Board during the Reporting Period

<table>
<thead>
<tr>
<th>Title</th>
<th>Type of report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information technology audits</td>
<td></td>
</tr>
<tr>
<td>Security Control Review of the Board’s National Examination Database System (nonpublic report)</td>
<td>Audit</td>
</tr>
<tr>
<td>Security Control Review of a Third-party Commercial Data Exchange Service Used by the Board’s Division of Banking Supervision and Regulation (nonpublic report)</td>
<td>Audit</td>
</tr>
<tr>
<td>Program audits, inspections, and evaluations</td>
<td></td>
</tr>
<tr>
<td>Board Should Enhance Compliance with Small Entity Compliance Guide Requirements Contained in the Small Business Regulatory Enforcement Fairness Act of 1996</td>
<td>Evaluation</td>
</tr>
<tr>
<td>Board Should Strengthen Controls over the Handling of the Federal Open Market Committee Meeting Minutes</td>
<td>Audit</td>
</tr>
<tr>
<td>The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control</td>
<td>Audit</td>
</tr>
<tr>
<td>Status of the Transfer of Office of Thrift Supervision Functions</td>
<td>Evaluation</td>
</tr>
<tr>
<td>The Board Should Improve Procedures for Preparing for and Responding to Emergency Events</td>
<td>Evaluation</td>
</tr>
</tbody>
</table>

Total number of audit reports: 4
Total number of inspection and evaluation reports: 3
### Table 2: Audit, Inspection, and Evaluation Reports Issued to the Board with Questioned Costs during the Reporting Period

<table>
<thead>
<tr>
<th>Reports</th>
<th>Number</th>
<th>Dollar value</th>
</tr>
</thead>
<tbody>
<tr>
<td>For which no management decision had been made by the commencement of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>That were issued during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which a management decision was made during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(i) dollar value of recommendations that were agreed to by management</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(ii) dollar value of recommendations that were not agreed to by management</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which no management decision had been made by the end of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which no management decision was made within six months of issuance</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

a. Because the Board is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

### Table 3: Audit, Inspection, and Evaluation Reports Issued to the Board with Recommendations That Funds Be Put to Better Use during the Reporting Period

<table>
<thead>
<tr>
<th>Reports</th>
<th>Number</th>
<th>Dollar value</th>
</tr>
</thead>
<tbody>
<tr>
<td>For which no management decision had been made by the commencement of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>That were issued during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which a management decision was made during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(i) dollar value of recommendations that were agreed to by management</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(ii) dollar value of recommendations that were not agreed to by management</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which no management decision had been made by the end of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which no management decision was made within six months of issuance</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

a. See note to table 2.
Table 4: OIG Reports to the Board with Recommendations That Were Open during the Reporting Perioda

<table>
<thead>
<tr>
<th>Report title</th>
<th>Issue date</th>
<th>Recommendations</th>
<th>Status of recommendations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of Service Credit Computations</td>
<td>08/05</td>
<td>3</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Security Control Review of the FISMA Assets Maintained by the Federal Reserve Bank of Boston (nonpublic report)</td>
<td>09/08</td>
<td>11</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Evaluation of Data Flows for Board Employee Data Received by Office of Employee Benefits and Its Contractors (nonpublic report)</td>
<td>09/08</td>
<td>2</td>
<td>2</td>
<td>–</td>
</tr>
<tr>
<td>Security Control Review of the Audit Logging Provided by the Information Technology General Support System (nonpublic report)</td>
<td>03/09</td>
<td>4</td>
<td>4</td>
<td>–</td>
</tr>
<tr>
<td>Security Control Review of the Lotus Notes and Lotus Domino Infrastructure (nonpublic report)</td>
<td>06/10</td>
<td>10</td>
<td>10</td>
<td>–</td>
</tr>
<tr>
<td>Security Control Review of the Internet Electronic Submission System (nonpublic report)</td>
<td>12/10</td>
<td>6</td>
<td>6</td>
<td>–</td>
</tr>
<tr>
<td>Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings</td>
<td>06/11</td>
<td>2</td>
<td>2</td>
<td>–</td>
</tr>
<tr>
<td>Review of the Failure of Pierce Commercial Bank</td>
<td>09/11</td>
<td>2</td>
<td>2</td>
<td>–</td>
</tr>
<tr>
<td>Security Control Review of the Visitor Registration System (nonpublic report)</td>
<td>09/11</td>
<td>10</td>
<td>10</td>
<td>–</td>
</tr>
<tr>
<td>Summary Analysis of Failed Bank Reviews</td>
<td>09/11</td>
<td>3</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Evaluation of Prompt Regulatory Action Implementation</td>
<td>09/11</td>
<td>1b</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Audit of the Board’s Information Security Program</td>
<td>11/11</td>
<td>1</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Review of RBOPS’ Oversight of the Next Generation $100 Note</td>
<td>01/12</td>
<td>2</td>
<td>2</td>
<td>–</td>
</tr>
<tr>
<td>Report title</td>
<td>Issue date</td>
<td>Recommendations</td>
<td>Status of recommendations</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>------------</td>
<td>-----------------</td>
<td>---------------------------</td>
<td></td>
</tr>
<tr>
<td>Security Control Review of the National Remote Access Services System</td>
<td>03/12</td>
<td>8</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td>(nonpublic report)</td>
<td></td>
<td>8</td>
<td>Mgmt. disagrees</td>
<td>09/13</td>
</tr>
<tr>
<td>Material Loss Review of the Bank of the Commonwealth</td>
<td>04/12</td>
<td>4</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td>Mgmt. disagrees</td>
<td>03/13</td>
</tr>
<tr>
<td>Security Control Review of the Board’s Public Website</td>
<td>04/12</td>
<td>12</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td>(nonpublic report)</td>
<td></td>
<td>12</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Review of the Unauthorized Disclosure of a Confidential Staff Draft</td>
<td>07/12</td>
<td>3</td>
<td>Mgmt. agrees</td>
<td></td>
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<tr>
<td>of the Volcker Rule Notice of Proposed Rulemaking</td>
<td></td>
<td>3</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Security Control Review of the Federal Reserve Bank of Richmond’s Lotus Notes</td>
<td>08/12</td>
<td>9</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td>Systems Supporting the Board’s Division of Banking Supervision and Regulation</td>
<td></td>
<td>9</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>(nonpublic report)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit of the Small Community Bank Examination Process</td>
<td>08/12</td>
<td>1</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Audit of the Board’s Government Travel Card Program</td>
<td>09/12</td>
<td>4</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Audit of the Board’s Actions to Analyze Mortgage Foreclosure Processing Risks</td>
<td>09/12</td>
<td>2</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Security Control Review of the Aon Hewitt Employee Benefits System</td>
<td>09/12</td>
<td>8</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td>(nonpublic report)</td>
<td></td>
<td>8</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>2012 Audit of the Board’s Information Security Program</td>
<td>11/12</td>
<td>2</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Security Control Review of Contingency Planning Controls for the Information</td>
<td>12/12</td>
<td>5</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td>Technology General Support System (nonpublic report)</td>
<td></td>
<td>5</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Review of the Failure of Bank of Whitman</td>
<td>03/13</td>
<td>1</td>
<td>Mgmt. agrees</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>1</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
<tr>
<td>Controls over the Board’s Purchase Card Program Can Be Strengthened</td>
<td>03/13</td>
<td>3</td>
<td>Mgmt. agrees</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>Mgmt. disagrees</td>
<td></td>
</tr>
</tbody>
</table>
Table 4: OIG Reports to the Board with Recommendations That Were Open during the Reporting Period

<table>
<thead>
<tr>
<th>Report title</th>
<th>Issue date</th>
<th>Recommendations</th>
<th>Status of recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Should Enhance Compliance with Small Entity Compliance Guide Requirements Contained in the Small Business Regulatory Enforcement Fairness Act of 1996</td>
<td>07/13</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Security Control Review of the Board’s National Examination Database System (nonpublic report)</td>
<td>07/13</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Security Control Review of a Third-party Commercial Data Exchange Service Used by the Board’s Division of Banking Supervision and Regulation (nonpublic report)</td>
<td>08/13</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Board Should Strengthen Controls over the Handling of the Federal Open Market Committee Meeting Minutes</td>
<td>08/13</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control</td>
<td>09/13</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>The Board Should Improve Procedures for Preparing for and Responding to Emergency Events</td>
<td>09/13</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

b. This recommendation was directed jointly to the OCC, the FDIC, and the Board.
The CFPB Should Strengthen Internal Controls for Its Government Travel Card Program to Ensure Program Integrity

OIG Report No. 2013-AE-C-017 September 30, 2013

Our objective for this audit was to determine the effectiveness of the CFPB’s internal controls for its GTC program. Specifically, we assessed compliance with policies and procedures and whether internal controls were designed and operating effectively to prevent and detect fraudulent or unauthorized use of travel cards and to provide reasonable assurance that cards are properly issued, monitored, and closed out.

Through its GTC program, the CFPB provides its employees with the necessary resources to arrange and pay for official business travel and other travel-related expenses and to receive reimbursements for authorized expenses. The CFPB’s Travel and Relocation Office within the Office of the Chief Financial Officer oversees the GTC program. In fiscal year 2012, the CFPB spent more than $10 million, or about 3 percent of its incurred expenses, on travel. As of April 30, 2013, the CFPB had 743 active cardholder accounts.

We found that internal controls for the CFPB GTC program should be strengthened to ensure program integrity. While controls over the GTC issuance process were designed and operating effectively, controls are not designed or operating effectively to (1) prevent and detect fraudulent or unauthorized use of GTCs and (2) provide reasonable assurance that cards are properly monitored and closed out. Specifically, the OIG found the following:

- Cardholders charged approximately $1,880 in unauthorized transactions on their GTCs.
- Cardholders claimed and received reimbursement for $320 in unallowable laundry and dry-cleaning transactions and $324 in potentially unallowable transactions for lodging and meals and incidental expenses.
• The Travel and Relocation Office did not ensure that cardholders could not exceed their daily cash-advance limit.

• The Travel and Relocation Office did not ensure that GTC accounts for separated employees were closed in a timely manner.

• The Travel and Relocation Office did not approve travel vouchers in a timely manner and send past-due account notifications to cardholders, their supervisors, the Chief Financial Officer, and the Office of Human Capital, as appropriate.

• The Travel and Relocation Office, cardholders, and cardholders’ supervisors did not properly submit or approve Travel Approval Forms and travel authorizations.

The results of our findings based on sample testing cannot be projected to the entire population because we did not use statistical sampling. Total noncompliance may be greater than our results indicate.

We made 14 recommendations designed to assist the CFPB in strengthening its internal controls over the GTC program. Management concurred with our recommendations and is planning to take actions to implement them.

Opportunities Exist for the CFPB to Strengthen Compliance with Its Purchase Card Policies and Procedures

OIG Report No. 2013-AE-C-015

September 30, 2013

The OIG conducted an audit to assess whether the controls for the CFPB’s purchase card program were adequate to (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the CFPB’s policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards.

To streamline the acquisition process for qualifying purchases, the CFPB participates in the General Services Administration’s SmartPay2 program through a task order with Treasury’s master contract with Citibank. Within Treasury, the Bureau of Public Debt’s Administrative Resource Center provides purchase card
administrative services and acts as the liaison between the CFPB and Citibank. The CFPB is operating under the Bureau of Public Debt’s 2011 Government Purchase Card Procedures and the CFPB’s Purchase Card Guides for the Mobile Workforce and Flagship Cardholders until internal purchase card policies and procedures are finalized.

We found that internal controls for the CFPB’s purchase card program are adequate and operating effectively to ensure that the program is generally in compliance with applicable laws, regulations, and the CFPB’s policies and procedures and to prevent and detect improper or fraudulent use of purchase cards. We did note, however, the following instances of noncompliance with applicable policies and procedures:

- Cardholders, including some who had separated, were missing purchase card files or missing supporting documentation in their purchase card files.
- Cardholders paid sales taxes.
- Cardholders did not document the reason for using convenience checks, and one cardholder improperly used a convenience check instead of a purchase card.
- Cardholders did not document the reason for purchases that had the appearance of split transactions.

We made two recommendations designed to ensure that purchase cardholders and agency program coordinators exercise appropriate internal controls to ensure the integrity of the purchase card program. Management concurred with our recommendations and has initiated steps to implement them.

**Opportunities Exist to Enhance the CFPB's Policies, Procedures, and Monitoring Activities for Conferences**

*OIG Report No. 2013-AE-C-011*  
*August 26, 2013*

We evaluated the CFPB’s management controls, including its policies, procedures, and practices, associated with the agency’s sponsored and nonsponsored conferences. Additionally, we assessed whether the CFPB’s conference expenses and practices followed applicable policies and procedures.
The CFPB’s Chief Financial Officer formed an internal review team to assess the CFPB’s compliance with internal controls for conference-related activities. Subsequently, the CFPB implemented two conference-related policies in May 2012. The CFPB has four acquisition approaches through which to coordinate conferences: the Treasury Departmental Offices, the Bureau of Public Debt’s Administrative Resource Center, the CFPB’s Office of Procurement, and the use of purchase cards by CFPB offices.

We found that although the CFPB’s *Policy for Conference/Meeting Planning and Attendance* identified roles and responsibilities for conference coordination and approval, it did not adequately reflect the CFPB’s current process for conference activities in certain respects. For example, the policy does not define the individuals who are authorized to coordinate and approve conferences. In addition, the policy does not delineate the monetary thresholds used in selecting between two of the acquisition approaches and does not mention another of the approaches. In addition, we found that the policy does not include guidance on the expedited approval process for training requests that is provided in the CFPB’s *Non-Academic External Training and Education Policy*.

We did not identify any material discrepancies in our sample testing of conference expenses. However, sample testing did show that the CFPB’s Office of Human Capital has not consistently obtained conference and training certificates and affidavits from employees who attend conferences or training as required by the *Non-Academic External Training and Education Policy*. Inadequate recordkeeping and lack of reviews increase the risk that the CFPB could expend funds for conferences and training that employees do not attend or complete.

We recommended that the CFPB update its policies and procedures for conference activities to accurately reflect the agency’s current processes for conference coordination and approval, periodically review its conference policies and procedures and update them as needed, conduct monthly reviews to ensure the receipt of training certificates and affidavits, and follow up to obtain outstanding documentation. Management stated that it concurred with the process improvements included in our recommendations and has begun implementing specific aspects of the recommendations.
Work in Progress

Audit of the CFPB’s Information Security Program

During this reporting period, we began our annual audit of the CFPB’s information security program and practices. This audit is being performed pursuant to FISMA, which requires each agency IG to conduct an annual independent evaluation of the agency’s information security program and practices. Our specific audit objectives are to evaluate the effectiveness of security controls and techniques for selected information systems and to evaluate compliance by the CFPB with FISMA and related information security policies, procedures, standards, and guidelines provided by NIST, OMB, and the Department of Homeland Security. In accordance with reporting requirements, our FISMA review includes an analysis of the CFPB’s security-related processes in the following areas: risk management, continuous monitoring management, plan of action and milestones, identity and access management, remote access management, configuration management, security training, contractor systems, contingency planning, incident response and reporting, and security capital planning. We expect to complete this project and issue our final report in the next reporting period.

Evaluation of the CFPB’s Integration of Enforcement Attorneys into Examinations

We initiated an evaluation of the CFPB’s integration of enforcement attorneys into its examinations of banking and nonbanking institutions’ compliance with applicable consumer protection laws and regulations. Our objectives for this evaluation are to assess (1) the potential risks associated with this approach to conducting examinations and (2) the effectiveness of any safeguards that the CFPB has adopted to mitigate the potential risks associated with this examination approach. We expect to complete our review and issue our report during the next semiannual reporting period.
Audit of the CFPB’s Cloud Computing Environment

During this reporting period, we began an audit of the CFPB’s cloud computing environment. We are reviewing actions taken by the CFPB to implement best practices stipulated in NIST guidance for implementing and managing cloud computing technologies. These actions include the CFPB’s processes to select cloud computing providers and the contract vehicles the CFPB has in place. The CFPB is also in the process of reevaluating its current cloud computing environment and associated contracts. As the CFPB continues to establish its IT infrastructure, we are also reviewing the procurement processes used to select new cloud computing providers. Our audit will focus on internal controls and processes undertaken to ensure that information security controls are considered in the development process for the new environment. We expect to complete this project and issue our final report in the next reporting period.

Audit of a CFPB Cloud Provider

During this reporting period, we began a security control review of a third-party provider of the CFPB’s cloud environment. Our objectives are to (1) evaluate the adequacy of certain control techniques designed to protect data from unauthorized access, modification, destruction, or disclosure and (2) assess compliance with the CFPB’s security-related policies and FISMA requirements. We expect to complete the review and issue our final report during the next semiannual reporting period.

Evaluation of the CFPB’s Compliance with Section 1100G of the Dodd-Frank Act

We are in the fieldwork stage of an evaluation to assess the CFPB’s compliance with section 1100G requirements of the Dodd-Frank Act. Section 1100G amends SBREFA and the Regulatory Flexibility Act to require the CFPB to assess a proposed rule’s economic impact and cost of credit for small entities. Among other requirements, the CFPB must perform a regulatory flexibility analysis that includes a description of (1) any projected increase in the cost of credit for small entities, (2) any significant alternatives to the proposed rule that accomplish the stated objectives of
applicable statutes and that minimize any increase in the cost of credit for small entities, and (3) the advice and recommendations of representatives of small entities relating to issues associated with the projected increases or alternatives. We expect to complete our evaluation during the next semiannual reporting period.

**Evaluation of the CFPB’s Annual Budget Process**

We completed our evaluation of the CFPB’s fiscal year 2013 budget formulation process and plan to issue our report before the end of the year. As an independent bureau within the Federal Reserve System, the CFPB is funded by the Federal Reserve System in amounts determined by the CFPB Director as necessary to carry out the agency’s operations, subject to limits established in the Dodd-Frank Act. Our objective for this review was to evaluate the extent to which the CFPB’s budget process facilitated the achievement of the agency’s goals and performance objectives, including transparency to the public.

**Evaluation of the CFPB’s Hiring Process**

We initiated an evaluation of the CFPB’s hiring process. The objective of our evaluation is to assess the efficiency and effectiveness of three CFPB recruitment and selection subprocesses: (1) personnel assessment methodology and vacancy announcement creation, (2) hiring authority and vacancy announcement posting, and (3) evaluation and selection of candidates. We will also assess the agency’s compliance with applicable laws, regulations, and policies and its administration of recruitment and selection incentives to recruit new employees. We have completed our fieldwork and plan to issue our report during the next semiannual reporting period.

**Audit of the CFPB’s Activities under the Government Performance and Results Act**

We initiated an audit of the CFPB’s initiatives under the Government Performance and Results Act (GPRA) and the GPRA Modernization Act, which are part of a legislative framework to instill performance-based management across federal government agencies. GPRA requires agencies to establish a management
system to set agency goals for program performance and to measure results against those goals. Agencies must incorporate the performance management concepts of strategic planning and performance measurement into their planning and budgeting processes and issue associated performance plans and reports. The objectives of this audit are to assess the CFPB’s compliance with applicable sections of GPRA and the effectiveness of processes that address GPRA and GPRA Modernization Act requirements. We have initiated our fieldwork and plan to issue our report during the next semiannual reporting period.

**Development of a Comprehensive Audit Plan of the CFPB's Programs and Operations**

The OIG has initiated a planning effort for audits and evaluations that includes reviewing aspects of the CFPB’s operations to identify an audit universe of core functions at the agency, division, and office levels. Our risk-based planning activities are designed to allow us to target our independent oversight on those programs and operations to which we can add value by providing timely products and services that will produce positive, measurable results. This analysis will facilitate the scheduling of projects to be undertaken in 2014 and the development of a multiyear general plan for subsequent planning years.

**Audit of the CFPB's Civil Penalty Fund**

We initiated an audit of the CFPB’s Civil Penalty Fund. Our audit will focus on determining whether the controls surrounding the eventual use of Civil Penalty Fund monies ensure that the CFPB is complying with applicable statutory, regulatory, and other appropriate criteria. As part of the audit, we are conducting an initial scoping effort to establish specific objectives, scope, and methodology. The Dodd-Frank Act established a Civil Penalty Fund for civil penalties obtained by the CFPB in judicial or administrative actions (including enforcement actions) under the federal consumer financial laws. Amounts in the Civil Penalty Fund are available to the CFPB, without fiscal year limitation, for payments to the victims of activities for which civil penalties have been imposed under federal consumer financial law. If victims cannot be located or such payments are otherwise not practicable,
the CFPB may use Civil Penalty Fund monies for the purpose of consumer education and financial literacy programs. On May 30, 2013, the CFPB allocated $10.5 million to compensate victims in two cases where civil penalties were obtained from July 11, 2011, through March 31, 2013, and $13.4 million for consumer education and financial literacy programs. While the CFPB made these allocations on May 30, 2013, as of August 2013, the agency had not paid victims in these cases or contractors to administer consumer education and financial literacy programs. We expect to complete this audit during the next semiannual reporting period.

**Evaluation of the CFPB’s Supervision Program**

We initiated an evaluation of the CFPB’s supervision program for large depository institutions and nondepository consumer financial service companies. Based on the authority granted by the Dodd-Frank Act, the CFPB began examinations of large depository institutions on July 21, 2011, and of nondepository consumer financial service companies on January 5, 2012. The objectives of our evaluation are to (1) review key program elements, including policies and procedures, examination guidance, and controls to promote consistent and timely reporting; (2) assess the approach for staffing examinations; and (3) assess the training program for examination staff. We are in the process of completing our fieldwork and plan to issue our report during the next semiannual reporting period.

**Response to a Congressional Request Regarding the CFPB’s Compliance with Federal Requirements for Addressing Climate Change**

We received a letter from the co-chairs of the Bicameral Task Force on Climate Change regarding actions taken in response to climate change by the agencies that we oversee. As the independent oversight entity for the CFPB, we provided an initial reply to the task force during this reporting period, noting that we had requested that the CFPB’s General Counsel determine the federal requirements that apply as well as the CFPB’s authorities to reduce emissions of heat-trapping pollution. We have completed our assessment of the CFPB’s response and will issue a final response during the next reporting period.
Table 5: Audit, Inspection, and Evaluation Reports Issued to the CFPB during the Reporting Period

<table>
<thead>
<tr>
<th>Title</th>
<th>Type of report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program audits, inspections, and evaluations</td>
<td></td>
</tr>
<tr>
<td>Opportunities Exist to Enhance the CFPB’s Policies, Procedures,</td>
<td>Evaluation</td>
</tr>
<tr>
<td>and Monitoring Activities for Conferences</td>
<td></td>
</tr>
<tr>
<td>The CFPB Should Strengthen Internal Controls for Its Government</td>
<td>Audit</td>
</tr>
<tr>
<td>Travel Card Program to Ensure Program Integrity</td>
<td></td>
</tr>
<tr>
<td>Opportunities Exist for the CFPB to Strengthen Compliance with Its</td>
<td>Audit</td>
</tr>
<tr>
<td>Purchase Card Policies and Procedures</td>
<td></td>
</tr>
</tbody>
</table>

Total number of audit reports: 2  
Total number of inspection and evaluation reports: 1

Table 6: Audit, Inspection, and Evaluation Reports Issued to the CFPB with Questioned Costs during the Reporting Period

<table>
<thead>
<tr>
<th>Reports</th>
<th>Number</th>
<th>Dollar value</th>
</tr>
</thead>
<tbody>
<tr>
<td>For which no management decision had been made by the commencement</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>of the reporting period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>That were issued during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which a management decision was made during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(i) dollar value of recommendations that were agreed to by management</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(ii) dollar value of recommendations that were not agreed to by</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For which no management decision had been made by the end of the</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>reporting period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For which no management decision was made within six months of</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>issuance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Because the CFPB is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.
### Table 7: Audit, Inspection, and Evaluation Reports Issued to the CFPB with Recommendations That Funds Be Put to Better Use during the Reporting Period

<table>
<thead>
<tr>
<th>Reports</th>
<th>Number</th>
<th>Dollar value</th>
</tr>
</thead>
<tbody>
<tr>
<td>For which no management decision had been made by the commencement of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>That were issued during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which a management decision was made during the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(i) dollar value of recommendations that were agreed to by management</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>(ii) dollar value of recommendations that were not agreed to by management</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which no management decision had been made by the end of the reporting period</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>For which no management decision was made within six months of issuance</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

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a. See note to table 6.
### Table 8: OIG Reports to the CFPB with Recommendations That Were Open during the Reporting Period

<table>
<thead>
<tr>
<th>Report title</th>
<th>Issue date</th>
<th>Recommendations</th>
<th>Status of recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of the Consumer Financial Protection Bureau’s Consumer Response Unit</td>
<td>09/12</td>
<td>5</td>
<td>08/13</td>
</tr>
<tr>
<td>2012 Audit of the Consumer Financial Protection Bureau’s Information Security Program</td>
<td>11/12</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Security Control Review of the Consumer Financial Protection Bureau’s Consumer Response System (nonpublic report)</td>
<td>03/13</td>
<td>9</td>
<td>–</td>
</tr>
<tr>
<td>CFPB Contract Solicitation and Selection Processes Facilitate FAR Compliance, but Opportunities Exist to Strengthen Internal Controls</td>
<td>03/13</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Opportunities Exist to Enhance the CFPB’s Policies, Procedures, and Monitoring Activities for Conferences</td>
<td>08/13</td>
<td>4</td>
<td>–</td>
</tr>
<tr>
<td>The CFPB Should Strengthen Internal Controls for Its Government Travel Card Program to Ensure Program Integrity</td>
<td>09/13</td>
<td>14</td>
<td>–</td>
</tr>
<tr>
<td>Opportunities Exist for the CFPB to Strengthen Compliance with Its Purchase Card Policies and Procedures</td>
<td>09/13</td>
<td>2</td>
<td>–</td>
</tr>
</tbody>
</table>

- A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.
Failed State Member Bank Reviews

Material Loss Reviews

Section 38(k) of the FDI Act requires that the IG of the appropriate federal banking agency complete a review of the agency’s supervision of a failed institution and issue a report within six months of notification from the FDIC OIG when the projected loss to the DIF is material. Under section 38(k) of the FDI Act, a material loss to the DIF is defined as an estimated loss in excess of $150 million for the period January 1, 2012, through December 31, 2013.

The material loss review provisions of section 38(k) require that the IG do the following:

- review the institution’s supervision, including the agency’s implementation of prompt corrective action
- ascertain why the institution’s problems resulted in a material loss to the DIF
- make recommendations for preventing any such loss in the future

We did not conduct any material loss reviews during this reporting period.

Nonmaterial Loss Reviews

The FDI Act, as amended by the Dodd-Frank Act, requires the IG of the appropriate federal banking agency to report, on a semiannual basis, certain information on financial institutions that incurred nonmaterial losses to the DIF and that failed during the respective six-month period.
When bank failures result in nonmaterial losses to the DIF, the IG is required to determine (1) the grounds identified by the federal banking agency or the state bank supervisor for appointing the FDIC as receiver and (2) whether the losses to the DIF present unusual circumstances that would warrant an in-depth review. Generally, the in-depth review process is the same as that for material loss reviews, but in-depth reviews are not subject to the six-month reporting deadline.

The IG must semiannually report the dates when each such review and report will be completed. If an in-depth review is not warranted, the IG is required to provide an explanation of this determination. In general, we consider a loss to the DIF to present unusual circumstances if the conditions associated with the bank's deterioration, ultimate closure, and supervision were not addressed in any of our prior bank failure reports or involved potentially fraudulent activity.

During this reporting period, we continued our in-depth review of the failure of Waccamaw Bank. In addition, one state member bank failed; the loss to the DIF associated with this failure was not material, and we determined that an in-depth review was not warranted.

**In-Depth Review of the Failure of Waccamaw Bank**

On June 8, 2012, the North Carolina Office of the Commissioner of Banks closed Waccamaw Bank and appointed the FDIC as receiver. According to the FDIC’s press release, as of March 31, 2012, Waccamaw Bank had approximately $533.1 million in total assets and $472.7 million in total deposits. On June 8, 2012, the FDIC estimated that the cost to the DIF of Waccamaw Bank’s closure will be $51.1 million, which did not meet the materiality threshold as defined under section 38(k) of the FDI Act. Based on the results of its failed bank review, the OIG determined that the failure of Waccamaw Bank was due to circumstances that have been covered in past OIG reports. However, the failed bank review also identified three unusual circumstances that warranted an in-depth review of Waccamaw Bank: (1) Waccamaw Bank appears to have misinformed regulators about key aspects of an asset swap transaction that significantly changed its risk profile and financial condition; (2) Waccamaw Bank initiated a series of
appeals related to the examiners’ recommended regulatory capital
treatment of a transaction, which ultimately reached the highest
level of appellate review by a Board Governor; and (3) there were
unique circumstances surrounding the retirement of Waccamaw
Bank’s former president and chief executive officer. As a result, we
initiated an in-depth review that focuses on these three unusual
circumstances. We plan to issue our report during the next
semiannual reporting period.

Nonmaterial Losses Not Warranting an In-Depth Review

During this semiannual period, there was one failed state member
bank with losses to the DIF that did not meet the materiality
threshold requiring an OIG review. We determined that the
circumstances of this bank failure did not warrant an in-depth
review.

Table 9: Nonmaterial State Member Bank Failure during the
Reporting Period

<table>
<thead>
<tr>
<th>State member bank</th>
<th>Location</th>
<th>Asset size (millions)</th>
<th>DIF projected loss (millions)</th>
<th>Closure date</th>
<th>OIG summary of state’s grounds for receivership</th>
<th>OIG determination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Canyon Bank</td>
<td>Gold Canyon, AZ</td>
<td>$45.2</td>
<td>$11.2</td>
<td>04/05/2013</td>
<td>Unsafe and unsound condition</td>
<td>Circumstances did not warrant an in-depth review</td>
</tr>
</tbody>
</table>
Follow-Up on Open Recommendations

We completed a follow-up review of the actions taken on open recommendations in our material loss and in-depth reviews from 2011 and 2012. Three reports contained a total of four open recommendations:

- *Summary Analysis of Failed Bank Reviews (2011)*— one open recommendation
- *Review of the Failure of Pierce Commercial Bank (2011)*— two open recommendations

Based on our follow-up work, we determined that sufficient action had been taken to close one of the two recommendations from the Pierce Commercial Bank report. For this recommendation, we found that BS&R updated the *Commercial Bank Examination Manual* to cross-reference several components of guidance to assist examiners in identifying the risks associated with secondary-market asset sales. As a result, we closed recommendation 2 from this report.

BS&R has initiated actions to address the remaining three open recommendations from these reports. We plan to continue our review of follow-up actions during the next semiannual reporting period.
Investigations

The OIG’s Office of Investigations conducts criminal, civil, and administrative investigations related to Board and CFPB programs and operations. The OIG operates under statutory law enforcement authority granted by the U.S. Attorney General, which vests our special agents with the authority to carry firearms, make arrests without a warrant, seek and execute search and arrest warrants, and seize evidence. OIG investigations are conducted in compliance with CIGIE’s Quality Standards for Investigations.

Former Senior Executives of the Bank of the Commonwealth Sentenced to 17 Years and 8 Years, Respectively, in Prison for Bank Fraud; Real Estate Developer Sentenced to 50 Months

On May 24, 2013, after a 10-week trial, a former vice president and chief lending officer of the Bank of the Commonwealth, another former vice president, and a favored borrower who was a commercial real estate developer were convicted by a federal jury in the Eastern District of Virginia in Norfolk, Virginia. They were found guilty of masking nonperforming assets at the Bank of the Commonwealth, a state member bank, for their own personal benefit and to the detriment of the bank. This long-running scheme contributed to the failure of the bank in 2011, costing the FDIC an estimated $333 million.¹

According to the evidence presented at trial, in 2006, leaders at the Bank of the Commonwealth began an aggressive expansion to take the bank beyond its traditional focus area of Norfolk and Virginia Beach, to include branches in northeastern North Carolina and the Outer Banks. By December 2009, the bank’s assets reached approximately $1.3 billion. These assets were built largely through brokered deposits.

Evidence showed that many of the bank’s loans were funded and administered without regard to industry standards or the bank’s

own internal controls. By 2008, the volume of the bank's troubled loans and foreclosed real estate soared. From 2008 through 2011, bank insiders masked the bank's true financial condition out of fear that the bank's declining health would negatively impact investor and customer confidence and affect the bank's ability to accept and renew brokered deposits.

To fraudulently hide the bank's troubled assets, bank executives overdrew demand deposit accounts to make loan payments and used funds from related entities, often without authorization from the borrower. They also changed the terms of the loans to make loans appear current and extended new loans or additional principal on existing loans to cover payment shortfalls.

In November 2008, the Bank of the Commonwealth submitted to the Federal Reserve System an application requesting approximately $28 million from the Troubled Asset Relief Program (TARP). Based on the concerns of the bank's regulator about the health of the bank, the Federal Reserve System later requested that the bank withdraw its TARP application, which it did.

From 2008 up to its closing in 2011, the Bank of the Commonwealth lost nearly $115 million. The bank's failure resulted in an estimated $333 million loss to the DIF.

On September 16, 2013, the former vice president and chief lending officer of the Bank of the Commonwealth was sentenced to 17 years in prison for conspiracy to commit bank fraud, false entries in bank records, misapplication of bank funds, and false statement to a financial institution. Further, the court ordered the former vice president and chief lending officer to pay $331.9 million in restitution to the FDIC and to forfeit $61.6 million in proceeds from the offense.

On September 18, 2013, the commercial real estate developer was sentenced to 50 months in prison for conspiracy to commit bank fraud, bank fraud, false statements to a financial institution, and aiding and abetting misapplication of bank funds. Further, the court ordered the commercial real estate developer to pay nearly $5 million in restitution to the FDIC and to forfeit $11.1 million in proceeds from the offense.

On September 30, 2013, the other former vice president was sentenced to 8 years in prison for conspiracy to commit bank fraud,
false entries in bank records, misapplication of bank funds, and false statement to a financial institution. Further, the court ordered the former vice president to pay $2.4 million in restitution to the FDIC and to forfeit $4.1 million in proceeds from the offense.

This investigation is being worked jointly by the Federal Bureau of Investigation (FBI), the FDIC OIG, the Internal Revenue Service–Criminal Investigation Division, SIGTARP, and the Board-CFPB OIG. The case is being prosecuted by the U.S. Attorney’s Office for the Eastern District of Virginia.

Wilmington Trust Corporation Executive Enters Plea Agreement to Conspiracy to Commit Bank Fraud

This case was initiated based on a request by the U.S. Attorney’s Office of Delaware regarding allegations that the board of directors at the Wilmington Trust Corporation (WTC), a Federal Reserve–regulated institution, may have made false Call Report entries. The alleged false entries affected the Allowance for Loan and Lease Losses provisions and ultimately impaired WTC’s capital position. WTC’s commercial loan portfolio sustained over $1 billion in losses. Additionally, WTC had applied to Treasury for $330 million in TARP funds under the Capital Purchase Program. On October 29, 2008, the Federal Reserve Bank of Philadelphia approved WTC’s request for TARP funds, and WTC received the funds in December 2008. Subsequently, SIGTARP discovered that WTC had not repaid dividends to Treasury, and SIGTARP opened an investigation into WTC’s deteriorating loan portfolio. In March 2010, WTC completed a public offering of $13.25 per share to raise additional capital. In November 2010, WTC was acquired by M&T Bank Corporation for $3.84 per share.

On April 10, 2013, a former vice president/division manager of the Delaware Commercial Real Estate Division of WTC, entered a guilty plea agreement with the U.S. Attorney for the District of Delaware, for conspiracy to commit bank fraud. The former vice president/division manager conspired to extend credit to WTC customers under terms that were either inconsistent with those

2. Reports of Condition and Income are commonly known as Call Reports. Every state member bank is required to file a consolidated Call Report normally as of the close of business on the last calendar day of each calendar quarter, which is the report date.
approved by the Bank Loan Committee or would not have been approved had they been presented to the Bank Loan Committee. Additionally, the former vice president/division manager further conspired to conceal the true financial condition of the bank, in part by extending new loans to clients to enable these clients to keep existing loans current and by causing the bank to misrepresent its reporting of past-due and nonperforming loans.

The case was investigated by the FBI, the Internal Revenue Service–Criminal Investigation Division, SIGTARP, the Board-CFPB OIG, and the U.S. Attorney’s Office of Delaware.

Coastal Community Bank Executives and Attorney Charged with Conspiracy, Wire Fraud, False Statements, and Making a False Claim against the United States

On August 6, 2013, the chairman/chief executive officer and the chief financial officer of Coastal Community Bank as well as an attorney were charged by a federal grand jury in the Northern District of Florida with one count of conspiracy to commit wire fraud against the FDIC, seven counts of wire fraud, three counts of making false statements to the FDIC, and one count of aiding and abetting a false claim against the United States. A sealed indictment was returned by the federal grand jury on July 9, 2013, and it was unsealed on August 6, 2013.

The indictment alleges that Coastal Community Investments (CCI) was a Federal Reserve–regulated bank holding company that owned Coastal Community Bank, based in Panama City Beach, Florida, and Bayside Savings Bank, based in Port St. Joe, Florida. Coastal Community Bank and Bayside Savings Bank both failed on July 30, 2010.

The fraud alleged in the indictment involved the FDIC’s Temporary Liquidity Guarantee Program (TLGP), which was created in October 2008, at the height of the financial crisis. The purpose of the TLGP was to encourage banks to begin lending to one another again and, thereby, help stabilize the economy. To do this, the TLGP provided that the FDIC would guarantee a loan made by one financial institution to another financial institution in an amount up to 125 percent of the borrower’s existing senior
unsecured debt, thus assuring repayment to the lender by the borrower or, in the event of default, by the FDIC.

The indictment further alleges that in October 2008, CCI had a $3 million loan with RBC Bank (USA) (RBC), which was secured by 100 percent of the stock of Coastal Community Bank and Bayside Savings Bank. At that time, the RBC loan was in default, thus giving RBC the ability to exercise its right to take the pledged stock and potentially rendering the defendants’ shares in CCI worthless. The indictment alleges that under pressure from RBC to repay this debt, the defendants falsely certified to the FDIC that the RBC loan was unsecured, knowing that it was secured, so that CCI could obtain an FDIC-guaranteed loan under the TLGP.

The indictment further alleges that CCI obtained a nearly $3.8 million loan (125 percent of the RBC loan) from central Florida–based CenterState Bank, which, based on the defendants’ misrepresentations, was guaranteed by the FDIC under the TLGP. CCI used the proceeds of this loan to repay the RBC loan. In June 2010, CCI defaulted on this nearly $3.8 million loan, and on August 7, 2010, CenterState Bank filed a claim with the FDIC for payment of the full amount due, plus interest. The FDIC paid CenterState’s claim on August 13, 2010, by wiring $3.8 million in principal and interest from the FDIC to CenterState.

Finally, the indictment alleges that one executive, desiring to avoid losses to himself and his family as CCI’s financial condition deteriorated, fraudulently sold and converted CCI stock owned by him and his family members to unwitting investors by misrepresenting the nature of the stock and CCI’s financial condition and by providing loans from Coastal Community Bank to finance the purchases of CCI stock.

This case is the result of a joint investigation conducted by the Board–CFPB OIG, the FBI, the FDIC OIG, SIGTARP, and the U.S. Attorney’s Office. The case is being prosecuted by the U.S. Attorney’s Office for the Northern District of Florida.
Former Bank President and Other Officers Indicted in Massive Fraud That Preceded the Collapse of First National Bank of Savannah

On August 7, 2013, the former president and six other officers of First National Bank of Savannah were indicted by a federal grand jury, accused of defrauding First National Bank of Savannah and other banks out of millions of dollars. The long-running scheme allegedly contributed to the failure of First National Bank of Savannah in 2010, which will result in a loss to the DIF of over $90 million. The Board-CFPB OIG initiated this investigation based on a referral by the FDIC OIG. First National Bank of Savannah was a wholly owned subsidiary of First National Corporation, a Federal Reserve–regulated bank holding company.

According to the allegations in the indictment, as the bank's financial condition began to deteriorate, the defendants schemed to hide from the bank, from members of the bank's board of directors, and from federal regulators millions of dollars in nonperforming loans. The defendants accomplished the scheme by unlawfully lending money to unqualified nominees to make interest and other payments on other nonperforming loans; enticing others to take over nonperforming loans with hidden promises, side deals, and other terms unfavorable to the bank; and recruiting other banks to fund nonperforming loans based on fraudulent misrepresentations about the quality of the loans.

To assist in their scheme, the defendants falsified and fabricated numerous bank documents and records through the Federal Reserve–regulated bank holding company. The scheme involved loans that required approval from several bank executives who held positions at the underlying bank and the bank holding company. These transactions flowed through the bank holding company and resulted in material misrepresentations to the Call Report and the FRY9SP Bank Holding Company Inspection Report.  

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3. The FRY9SP Bank Holding Company Inspection Report collects basic financial data from small domestic bank holding companies and savings and loan holding companies on a parent-only basis in the form of a balance sheet, an income statement, and a schedule for certain memorandum items. The information is used to assess and monitor the financial condition of parent bank holding companies and savings and loan holding companies.
This case is the result of a joint investigation conducted by the Board–CFPB OIG, the FDIC OIG, the Treasury OIG, the U.S. Secret Service, and the U.S. Attorney’s Office. The case is being prosecuted by the U.S. Attorney’s Office for the Southern District of Georgia.

Bank Chairman Pleads Guilty to Making a Material Misstatement Concerning the Use of TARP Funds

On August 26, 2013, the chairman, president, and majority shareholder of Calvert Financial Corporation (CFC), which is a Federal Reserve–regulated bank holding company for Mainstreet Bank, entered into a plea agreement with the U.S. Attorney’s Office for the Western District of Missouri. The chairman, who also serves as the chairman and chief financial officer of Mainstreet Bank, pleaded guilty to an information in federal court charging him with one count of making a false writing in violation of 18 U.S.C. § 1018.

According to the plea agreement, in November 2008, CFC applied to receive TARP funds. In January 2009, CFC received approximately $1 million in TARP funds. The chairman, as the duly authorized senior executive officer of CFC, signed all transaction documents related to the acquisition of these TARP funds. On February 2, 2009, the chairman used $381,487 of the TARP funds to purchase a luxury condominium in Fort Myers, Florida. The chairman purchased the condominium through a transfer of funds and executed all transaction documents for the purchase.

As part of its duty to supervise, audit, and investigate institutions that receive TARP funds, SIGTARP is required to annually submit to Congress a report detailing the use of TARP funds by institutions that received such funds. Accordingly, SIGTARP transmitted letters to various financial institutions, including CFC, seeking specific information as to how TARP funds were used by the institution.

In a February 10, 2009, letter of response to SIGTARP’s use-of-funds inquiry, the chairman of CFC failed to disclose that a significant portion of the TARP funds allocated to CFC had been used to acquire the condominium. According to the plea
agreement, the failure by the chairman to disclose the purchase of the condominium was a material misrepresentation of facts relating to the true use of TARP funds by CFC.

As part of the plea agreement, the chairman agreed to enter into a consent order of removal and prohibition with the Board in which he agrees not to become or to continue serving as an officer, director, employee, or institution-affiliated party, as defined in 12 U.S.C. § 1813(u), or participate in any manner in the conduct of the affairs of any institution or agency specified in 12 U.S.C. § 1818(e)(7)(A) without the prior approval of the appropriate federal financial institution regulatory agency.

This is a joint investigation by the FBI, SIGTARP, and the Board-CFPB OIG. This case is being prosecuted by the U.S. Attorney’s Office for the Western District of Missouri.
Table 10: Summary Statistics on Investigations during the Reporting Period

<table>
<thead>
<tr>
<th>Investigative actions</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investigative caseload</td>
<td></td>
</tr>
<tr>
<td>Investigations open at end of previous reporting period</td>
<td>54</td>
</tr>
<tr>
<td>Investigations opened during the reporting period</td>
<td>11</td>
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<tr>
<td>Investigations closed during the reporting period</td>
<td>6</td>
</tr>
<tr>
<td>Investigations open at end of the period</td>
<td>59</td>
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<tr>
<td>Investigative results for the reporting period</td>
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<tr>
<td>Referred to prosecutor</td>
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<tr>
<td>Joint investigations</td>
<td>38</td>
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<tr>
<td>Referred to audit</td>
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<tr>
<td>Referred for administrative action</td>
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<tr>
<td>Oral and/or written reprimands</td>
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<td>Terminations of employment</td>
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<td>Arrests</td>
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<tr>
<td>Suspensions</td>
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<tr>
<td>Debarments</td>
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<td>Indictments</td>
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<tr>
<td>Criminal information</td>
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<td>Convictions</td>
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<tr>
<td>Monetary recoveries</td>
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<tr>
<td>Civil actions</td>
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<tr>
<td>Criminal fines, restitution, and forfeiture</td>
<td>$341,758,970</td>
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<tr>
<td>Asset forfeiture</td>
<td>$86,665,447</td>
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</tbody>
</table>

a. Some of the investigative numbers may include data also captured by other OIGs.
Hotline

The OIG Hotline serves as a resource for individuals to report fraud, waste, abuse, or mismanagement related to the programs or operations of the Board and the CFPB. Hotline staff can be reached by phone, fax, mail, or e-mail. OIG analysts review all incoming Hotline communications, research and analyze the issues raised, and determine how to best address the complaints. During this reporting period, the Hotline received 491 complaints.

The OIG Hotline continued to receive a significant number of complaints involving fraudulent e-mail solicitations invoking the name of the Federal Reserve, the Chairman of the Board of Governors, and the Governors of the Federal Reserve System. Hotline staff continue to advise all individuals that these “phishing” e-mails are solicitations that attempt to obtain the personal or financial information of the recipient and that neither the Board nor the Federal Reserve Banks endorse or have any involvement in them. As appropriate, the OIG may investigate these complaints.

The OIG Hotline continued to receive a number of complaints from individuals seeking information about or wanting to file noncriminal consumer complaints against financial institutions. After analyzing these complaints, Hotline staff typically refer the complainant to the consumer group of the appropriate federal regulator for the institution involved, such as the Customer Assistance Group of the OCC. As appropriate, Hotline staff refer individuals to the CFPB’s Consumer Response unit for assistance regarding complaints about credit cards, student loans, mortgages, and other consumer financial products and services.

As part of the Hotline’s continued outreach efforts, Hotline staff continue to present information about the OIG and its Hotline to new employees of the Board and the CFPB and distribute Hotline magnets to all Board and CFPB employees at their respective orientation sessions.
Table 11: Summary Statistics on Hotline Activities during the Reporting Period

<table>
<thead>
<tr>
<th>Hotline complaints</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Complaints pending from previous reporting period</td>
<td>16</td>
</tr>
<tr>
<td>Complaints received during reporting period</td>
<td>491</td>
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<tr>
<td>Total complaints for reporting period</td>
<td>507</td>
</tr>
<tr>
<td>Complaints resolved during reporting period</td>
<td>500</td>
</tr>
<tr>
<td>Complaints pending</td>
<td>7</td>
</tr>
</tbody>
</table>
Legal Services

The Legal Services program serves as the independent legal counsel to the IG and the OIG staff. The Legal Services staff provides comprehensive legal advice, research, counseling, analysis, and representation in support of OIG audits, investigations, inspections, evaluations, and other professional, management, and administrative functions. This work provides the legal basis for the conclusions, findings, and recommendations contained in OIG reports. Moreover, Legal Services keeps the IG and the OIG staff aware of recent legal developments that may affect the activities of the OIG, the Board, and the CFPB.

In accordance with section 4(a)(2) of the IG Act, the Legal Services staff conducts an independent review of newly enacted and proposed legislation and regulations to determine their potential effect on the economy and efficiency of the Board’s and the CFPB’s programs and operations. During this reporting period, Legal Services reviewed 17 legislative and 7 regulatory items.
Communications and Coordination

The OIG’s primary mission is to enhance the economy, efficiency, and effectiveness of Board and CFPB programs and operations, and we coordinate externally and work internally to achieve our goals and objectives. Externally, we regularly coordinate with and provide information to Congress and congressional staff. We also are active members of the broader IG professional community and promote collaboration on shared concerns. Internally, we consistently strive to enhance and maximize efficiency and transparency in our infrastructure and day-to-day operations. Within the Board, the CFPB, and the Federal Reserve System, we continue to provide information about the OIG’s roles and responsibilities. In addition, we participate in an advisory capacity on various Board work groups. Highlights of these activities follow.

Congressional Coordination and Testimony

The OIG communicates and coordinates with various congressional committees on issues of mutual interest. During the reporting period, we provided 26 responses to inquiries from congressional members and staff concerning the Board and the CFPB.

Council of Inspectors General on Financial Oversight

Consistent with the Dodd-Frank Act, CIGFO is required to meet at least quarterly to facilitate the sharing of information among the IGs and to discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. During this reporting period, CIGFO met on June 24, 2013, and September 23, 2013. The Dodd-Frank Act authorizes CIGFO, by a majority vote, to convene a working
group to evaluate the effectiveness and internal operations of FSOC. As discussed on page 19, the CIGFO working group concluded its work to examine the rules, procedures, and practices established by FSOC and its member agencies to designate FMUs as systemically important and therefore subject to the requirements of title VIII of the Dodd-Frank Act. In addition, the working group made inquiries regarding FSOC’s processes to designate payment, clearing, and settlement activities conducted by financial institutions as systemically important. CIGFO is required to annually issue a report that highlights the IGs’ concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO issued its third annual report in July 2013.  

Council of the Inspectors General on Integrity and Efficiency and Inspector General Community Involvement

The IG is a member of CIGIE, which provides a forum for IGs from various government agencies to discuss government-wide issues and shared concerns. Collectively, the members of CIGIE work toward improving government programs and operations. The IG also serves as a member of CIGIE’s Legislation Committee and Investigations Committee and leads the Information Technology Subcommittee of the Legislation Committee. The Legislation Committee is the central point of information regarding legislative initiatives and congressional activities that may affect the community, such as proposed cybersecurity legislation that was reviewed during the reporting period. The Investigations Committee advises the IG community on issues involving criminal investigations, criminal investigations personnel, and establishing criminal investigative guidelines. The Associate IG for Legal Services serves as the chair of the Council of Counsels to the IG, and Legal Services staff attorneys are members of the council. In addition, the Associate IG for Information Technology, as the chair of the IT Committee of the Federal Audit Executive Council, works

with IT audit staff throughout the IG community and reports to the CIGIE Audit and IT Committees on common IT audit issues.

**Financial Regulatory Coordination**

To foster cooperation on issues of mutual interest, the IG communicates periodically with the IGs from other federal financial regulatory agencies: the FDIC, Treasury, the National Credit Union Administration, the Securities and Exchange Commission, the Farm Credit Administration, the Commodity Futures Trading Commission, the Pension Benefit Guaranty Corporation, the Export-Import Bank, and the Federal Housing Finance Agency.

In addition, the Associate IG for Audits and Evaluations and the Associate IG for Information Technology and their management staffs meet with their financial regulatory agency OIG counterparts to discuss various topics, such as bank failure material loss review best practices, annual plans, and ongoing projects. The OIG also coordinates with the Government Accountability Office regarding financial regulatory and other related issues.
Peer Reviews

Government auditing and investigative standards require that our audit and investigative units each be reviewed by a peer OIG organization every three years. Section 989C of the Dodd-Frank Act amended the IG Act to require that OIGs provide in their semiannual reports to Congress specified information regarding (1) peer reviews of their respective organizations and (2) peer reviews they have conducted of other OIGs. The following information addresses these Dodd-Frank Act requirements.

The last peer review of the OIG’s audit organization was completed in December 2011 by the Pension Benefit Guaranty Corporation OIG. We received a peer review rating of pass. There were no report recommendations, nor were any peer review recommendations pending from any previous peer reviews of our audit organization.

On June 9, 2010, the U.S. Attorney General approved the OIG’s request for statutory law enforcement authority. As a result and in accordance with Attorney General guidelines, the next peer review of the Office of Investigations was due three years from the date of receiving statutory law enforcement authority. This peer review, conducted by the Railroad Retirement Board OIG, began on September 30, 2013, and the results will be included in our next Semiannual Report to Congress.

Copies of peer review reports of our organization are available on our website: http://www.federalreserve.gov/oig/peer_review_reports.htm
Abbreviations

Board  Board of Governors of the Federal Reserve System
BS&R  Division of Banking Supervision and Regulation
CCAR  Comprehensive Capital Analysis and Review
CCI  Coastal Community Investments
CFC  Calvert Financial Corporation
CFPB  Consumer Financial Protection Bureau
CIGFO  Council of Inspectors General on Financial Oversight
CIGIE  Council of the Inspectors General on Integrity and Efficiency
CLO  Congressional Liaison Office
CLO contact list  Congressional Liaison Office e-mail distribution list
DIF  Deposit Insurance Fund
Dodd-Frank Act  Dodd-Frank Wall Street Reform and Consumer Protection Act
FBI  Federal Bureau of Investigation
FDI Act  Federal Deposit Insurance Act, as amended
FDIC  Federal Deposit Insurance Corporation
FFIEC  Federal Financial Institutions Examination Council
FISMA  Federal Information Security Management Act of 2002
FMFIA  Federal Managers' Financial Integrity Act of 1982
FMU  financial market utility
FOMC  Federal Open Market Committee
FSOC  Financial Stability Oversight Council
GPRA  Government Performance and Results Act
GTC  government travel card
IG  Inspector General
IG Act  Inspector General Act of 1978, as amended
IT  information technology
LEU  Law Enforcement Unit
NED  National Examination Database
NIST  National Institute of Standards and Technology
OCC  Office of the Comptroller of the Currency
OIG  Office of Inspector General
OMB  Office of Management and Budget
OTS  Office of Thrift Supervision
RBC  RBC Bank (USA)
RBOPS  Division of Reserve Bank Operations and Payment Systems
SBREFA  Small Business Regulatory Enforcement Fairness Act of 1996, as amended
SIGTARP  Special Inspector General for the Troubled Asset Relief Program
TARP  Troubled Asset Relief Program
TLGP  Temporary Liquidity Guarantee Program
Treasury  U.S. Department of the Treasury
WTC  Wilmington Trust Corporation
HOTLINE
1-800-827-3340
OIGHotline@frb.gov

Report Fraud, Waste, and Abuse
Those suspecting possible wrongdoing may contact the OIG Hotline by mail, e-mail, fax, or telephone.

Office of Inspector General, c/o Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW, Mail Stop K-300, Washington, DC 20551
Attention: OIG Hotline
Fax: 202-973-5044

Questions about what to report?
Visit the OIG website at www.federalreserve.gov/oig
or
www.consumerfinance.gov/oig