



OFFICE OF INSPECTOR GENERAL

Audit Report

2016-MO-B-006

# The Board Should Strengthen Controls to Safeguard Embargoed Sensitive Economic Information Provided to News Organizations

April 15, 2016

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
CONSUMER FINANCIAL PROTECTION BUREAU

## Report Contributors

Ed Fernandez, Project Lead  
Shola Epemolu, Auditor  
John Galvin, Auditor  
Andrew Gibson, Senior IT Auditor  
Sean Newman, Auditor  
Patricia Bradford, Audit Intern  
Anne Keenaghan, OIG Manager  
Timothy Rogers, Senior OIG Manager for Management and Operations  
Melissa Heist, Associate Inspector General for Audits and Evaluations

## Abbreviations

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BDM	Office of Board Members
Beige Book	<i>Summary of Commentary on Current Economic Conditions by Federal Reserve District</i>
Board	Board of Governors of the Federal Reserve System
FOMC	Federal Open Market Committee
GAO	U.S. Government Accountability Office
ID	identification
“Industrial Production”	“Industrial Production and Capacity Utilization”
Martin Building	William McChesney Martin, Jr., Building
NIST	National Institute of Standards and Technology
OIG	Office of Inspector General
OMB	Office of Management and Budget
PFEI	principal federal economic indicator
Public Affairs	Public Affairs Office
<i>Public Release Procedures</i>	<i>Public Affairs Office Public Release Procedures</i>
“Reserve Balances”	“Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks”
SP 800-53	Special Publication 800-53, Revision 4, <i>Security and Privacy Controls for Federal Information Systems and Organizations</i>
<i>Statistical Policy Directive No. 3</i>	<i>Statistical Policy Directive No. 3: Compilation, Release, and Evaluation of Principal Federal Economic Indicators</i>

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## Executive Summary:

# The Board Should Strengthen Controls to Safeguard Embargoed Sensitive Economic Information Provided to News Organizations

2016-MO-B-006

April 15, 2016

### Purpose

The Office of Inspector General (OIG) conducted this audit to assess the Board of Governors of the Federal Reserve System's (Board) controls to protect sensitive economic information from unauthorized disclosure when it is provided under embargo to news organizations either (1) through a press lockup room located at the Board or (2) via the Board's embargo application, which enables news participants to remotely access information made available by the Board. The OIG's audit covered the period April 2014 through March 2015 and included the Federal Open Market Committee (FOMC) statements and Summaries of Economic Projections, the FOMC minutes, the *Summary of Commentary on Current Economic Conditions by Federal Reserve District* (also known as the Beige Book), and the four principal federal economic indicators (as designated by the Office of Management and Budget). We also conducted live observations of the press lockup room on June 17, 2015, and March 2, 2016.

### Background

The FOMC and the Board produce several economic publications, including statistical releases, on a periodic schedule and provide approved news organizations access to them under embargo before they are available to the general public on the Board's website. The Board told the OIG that it provides news organizations embargoed access to economic publications to facilitate the "smooth and accurate" dissemination of sensitive economic information to the public.

### Findings

The Board should strengthen controls to safeguard sensitive economic information that is provided to news organizations under embargo. We identified opportunities for the Board to (1) more strictly adhere to controls already established in policies, procedures, and agreements with participating news organizations and (2) establish new controls to more effectively safeguard embargoed economic information. We also identified risks to providing information under embargo through the embargo application.

During the course of this audit, we discovered issues that warranted the Board's immediate attention. We issued a restricted early alert memorandum to the Board on July 16, 2015, that outlined these concerns and included recommendations.

On August 19, 2015, a news organization broke the embargo of the FOMC meeting minutes that had been provided through the embargo application. On August 21, 2015, the Board ceased using the embargo application to provide news organizations embargoed access to FOMC-related information and other market-moving economic publications within the scope of our audit. Separately, the Board relocated its press lockup room in September 2015, a move that had already been planned prior to the start of our audit.

### Recommendations

Our report contains recommendations designed to strengthen the Board's controls to safeguard sensitive economic information provided to news organizations under embargo and includes actions taken by the Board in response to the early alert memorandum. In its response to our draft report, the Board generally concurs with our recommendations. The Board notes that substantial improvements were planned before we began our review and that many were implemented during our review.

## Summary of Recommendations, OIG Report 2016-MO-B-006

Recommendation number	Page	Recommendation	Responsible office
1	9	Analyze the sensitivity of the remaining embargoed information provided through the embargo application and document the decision as to whether the benefits of providing this access outweigh the risks of unauthorized disclosure.	Office of Board Members
2	14	Verify and document that each news participant has completed each step in the sign-in process before accessing the press lockup room.	Office of Board Members
3	17	Verify that all required documents have been received prior to granting news participants access to embargoed information through the press lockup room and the embargo application.	Office of Board Members
4	17	Establish a records management process to facilitate the retrieval of documents required for news organizations and news participants to access embargoed information.	Office of Board Members
5	20	Disable the embargo application access of all news participants who either no longer have a need for embargoed information or have not completed all required documents for access.	Office of Board Members
6	20	Update the Board's policies and procedures to require the Board to enforce the news organizations' regular submission of information and to complete the evaluations that are stipulated in the news organization agreements, as follows: <ul style="list-style-type: none"> <li>a. annually assess whether news organizations continue to meet the Board's definition of a news organization and advance the purpose of the embargo process.</li> <li>b. semiannually require the news organizations to revalidate their users of the embargo application so that the Board can evaluate whether news participants continue to need access to embargoed information.</li> <li>c. annually require the news organizations to submit reports so that the Board can evaluate whether the procedures, if followed, are sufficient to protect embargoed information provided through the embargo application.</li> </ul>	Office of Board Members
7	23	Conduct and document an analysis to determine how the classification and handling requirements established in the Board's <i>Information Classification and Handling Standard</i> and the Federal Open Market Committee's <i>Program for Security of FOMC Information</i> apply to documents during the embargo period and update relevant policies, as necessary.	Office of Board Members
8	23	Include wording at the top of each page of documents provided under embargo to convey, in plain language, their embargoed status and official release date and time.	Office of Board Members

Recommendation number	Page	Recommendation	Responsible office
9	26	<p>Revise the embargo policies, procedures, and agreements to ensure that they</p> <ul style="list-style-type: none"> <li>a. reflect the current processes and controls, including addressing the gaps identified by the OIG.</li> <li>b. include consistent requirements for news organizations and news participants who have access to sensitive economic information provided under embargo, regardless of the method by which the information is provided.</li> <li>c. contain a requirement that the equipment used to access embargoed information from within the lockup room is reviewed regularly to ensure that it meets the Board's information security requirements.</li> <li>d. include specific steps for Board personnel to take when news organizations violate embargo requirements.</li> <li>e. formalize as a policy statement the purpose of providing information under embargo.</li> </ul>	Office of Board Members

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## OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
CONSUMER FINANCIAL PROTECTION BUREAU

April 15, 2016

### MEMORANDUM

**TO:** Michelle Smith  
Director, Office of Board Members  
Board of Governors of the Federal Reserve System

**FROM:** Melissa Heist *Melissa Heist*  
Associate Inspector General for Audits and Evaluations

**SUBJECT:** OIG Report 2016-MO-B-006: *The Board Should Strengthen Controls to Safeguard Embargoed Sensitive Economic Information Provided to News Organizations*

The Office of Inspector General (OIG) has completed its report on the subject audit. We conducted this audit to assess the Board of Governors of the Federal Reserve System's (Board) (1) press lockup room processes to determine whether controls were operating effectively to protect Federal Open Market Committee (FOMC) statements (and Summaries of Economic Projections, when applicable) from unauthorized disclosure when provided to news organizations under embargo and (2) processes for providing information through its embargo application to determine whether controls were operating effectively to protect the FOMC meeting minutes, the *Summary of Commentary on Current Economic Conditions by Federal Reserve District* (also known as the Beige Book), and the four principal federal economic indicators (as designated by the Office of Management and Budget) from unauthorized disclosure when provided to news organizations under embargo.

We provided you with a draft of our report for review and comment. In your response, you generally agree with our recommendations. We have included your response as appendix B in our report.

We appreciate the cooperation that we received from your staff. Please contact me if you would like to discuss this report or any related issues.

cc: David Skidmore, Assistant to the Board  
Sharon Mowry, Chief Information Officer and Director, Division of Information Technology  
Thomas Laubach, Director, Division of Monetary Affairs  
Donald Hammond, Chief Operating Officer, Office of the Chief Operating Officer  
William Mitchell, Chief Financial Officer and Director, Division of Financial Management  
J. Anthony Ogden, Deputy Inspector General

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# Introduction

## Objective

The Board of Governors of the Federal Reserve System (Board) releases a variety of economic publications, and it works with news organizations to disseminate certain information to the public. As part of the information's public release, the Board provides approved news organizations and their representatives, referred to as *news participants*, an opportunity to review certain publications before they are available to the public. This prereleased information is considered to be *under embargo*. The Board requires that news organizations not publicly release embargoed information until the designated official release time. Depending on the economic publication, embargoed access is provided either through a press lockup room located at the Board or electronically through the Board's embargo application, which enables news participants to remotely access embargoed information.

The objective of our audit was to assess the Board's press lockup room and application processes to determine whether controls were operating effectively to protect certain economic information from unauthorized disclosure when provided to news organizations under embargo. The following economic publications were included in our audit:

- the Federal Reserve System's Federal Open Market Committee (FOMC) statements and Summaries of Economic Projections provided through the press lockup room from April 2014 through March 2015
- the FOMC meeting minutes, the *Summary of Commentary on Current Economic Conditions by Federal Reserve District* (Beige Book), and the four principal federal economic indicators (PFEIs) as designated by the Office of Management and Budget (OMB) and provided through the embargo application from April 2014 through March 2015<sup>1</sup>

Our scope also included (1) the June 17, 2015, release of the FOMC statement and Summary of Economic Projections and the March 2, 2016, release of the Beige Book, for which we conducted live observations of press lockup room processes and (2) actions taken by the Board in response to initial Office of Inspector General (OIG) observations communicated to the Board and a news organization's unauthorized release of embargoed FOMC information that was provided through the embargo application on August 19, 2015. For additional details regarding our scope and methodology, see appendix A.

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1. After the end of our scope period in March 2015, the Board moved the release of the Beige Book from the embargo application to the press lockup room.

## Background

The FOMC and the Board produce several economic publications, including statistical releases, on a periodic schedule. Some of the economic information produced by the FOMC and the Board is considered sensitive because it has the potential to significantly influence financial market activity.

The FOMC, which is the monetary policymaking body of the Federal Reserve System, is scheduled to meet eight times throughout the year. At these meetings, the FOMC members review economic and financial conditions, determine the appropriate stance of U.S. monetary policy, and assess the risks to the FOMC's long-run goals of price stability and sustainable economic growth. The FOMC produces the following economic publications related to the FOMC meeting:

- *Beige Book*. Approximately two weeks prior to each scheduled FOMC meeting, the FOMC releases the Beige Book, which summarizes economic conditions throughout each of the 12 Federal Reserve Districts.
- *FOMC statement*. Immediately following each FOMC meeting, the FOMC releases the FOMC statement, which describes decisions made during the meeting.
- *FOMC Summary of Economic Projections*. Immediately following every other FOMC meeting, the FOMC releases (concurrently with the FOMC statement) the Summary of Economic Projections that helped inform monetary policy decisions.
- *FOMC meeting minutes*. Three weeks after each FOMC meeting, the minutes of the FOMC meeting are provided to the public.

Separately from the FOMC, the Board produces a variety of economic publications, speeches and testimonies, and other releases. For example, Board economists prepare statistical releases that contain tables of data on a broad range of financial and economic topics. Of the statistical releases published by the Board, four contained data during our review period that the Board considered “influential in nature” and for which the Board could “reasonably determine that dissemination of the information does have or will have a clear and substantial impact on important public policies or important private sector decisions.” Thus, OMB designated the following four of the Board's economic publications as PFEIs for the releases in our audit scope:<sup>2</sup>

- “Industrial Production and Capacity Utilization” (“Industrial Production”), published monthly
- “Consumer Credit,” published monthly
- “Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks” (“Reserve Balances”), published weekly
- “Money Stock Measures,” published weekly

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2. Effective January 1, 2016, “Reserve Balances” and “Money Stock Measures” were removed from OMB's list of PFEIs.

To minimize the risk of inaccurate reporting of potentially market-moving information, the Board provides news organizations the opportunity to review the FOMC and Board economic publications listed above before they are released to the public. Although there is no official policy or document stating the Board's rationale for providing this information under embargo, a Board official informed us that the process is used to facilitate "smooth and accurate" reporting of complex, sensitive economic information. The official noted that without a designated embargo period, news organizations may inaccurately interpret and report on the information, which could cause the financial markets to respond differently than if the information is reported accurately.

### ***The Board's Processes to Provide Sensitive Economic Information Under Embargo to News Organizations***

The Public Affairs Office (Public Affairs) within the Office of Board Members (BDM) is responsible for releasing sensitive economic information to the public. Economic information is released to the public through (1) the news organizations that disseminate information they received under embargo and (2) a separate process that results in the posting of the economic information to the Board's public website.<sup>3</sup> BDM manages the processes for providing embargoed information to news organizations through the press lockup room and the embargo application.

The *Public Affairs Office Public Release Procedures (Public Release Procedures)* provides Board personnel instructions for releasing information under embargo to news organizations. A summary of the Board's embargo processes in effect at the time of our review is provided below.

#### **Press Lockup Room**

A press lockup room is a physically secured location where information is provided under embargo to news participants who are not permitted to enter or leave the room until authorized. The Board uses a press lockup room so that approved news participants can read, review, and compose summaries of embargoed information in advance of the information's official release to the public. During our review period, the Board used one of the dining rooms in its William McChesney Martin, Jr., Building (Martin Building) as a lockup room. Subsequent to our review period and as previously planned, the Board relocated its press lockup room to Board-leased space in a Washington, DC, office building. The Board plans to create a new press lockup room as part of its renovation of the Martin Building, which is ongoing.

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3. The Board's processes to post information to its public website were not covered by the scope of this audit.

## *Approving News Organizations and Their News Participants for the Press Lockup Room*

Prior to being approved for access to the press lockup room, news participants and their news organizations must submit certain documents, including the following:

- a lockup room news organization agreement that establishes the terms, conditions, and requirements under which the Board allows each news organization access to information under embargo
- a Bureau Chief letter documenting that the head of the news organization's Washington, DC, office has certified that the news participant requires access to information under embargo
- a lockup room participant agreement that documents the participant's acknowledgement of the Board's nondisclosure requirements and the responsibilities of participation

The lockup room news organization agreement also lists certain characteristics required for news organizations to participate in the lockup room. According to the agreement, the news organization must

1. have as its principal business the daily dissemination of news of interest to a broad segment of the public
2. distribute a variety of news products to a wide and diverse audience, including geographically
3. have been publishing the news continuously for at least 18 months
4. have correspondents who are eligible for a congressional gallery pass, which is the credential Congress requires for news participants to access its press rooms
5. have an office in the Washington, DC, metropolitan area
6. not be engaged in any lobbying or paid advocacy, advertising, publicity, or promotion work for any individual, political party, corporation, organization, or agency of the U.S. government

In addition, only news organizations that, as determined by the Board, provide "data analysis and commentary" and "best advance the purpose" of the embargo process may participate in the press lockup room.

### *Access to the Press Lockup Room*

After completing the required steps to enter the building, news participants must complete a sign-in process prior to entering the lockup room. During our review period, the *FOMC Lock-up Media Check-in Procedure* required Board personnel to

1. check that the news participants' required documents are up-to-date
2. have the news participants provide individual information, such as name and news organization, on the sign-in sheet
3. collect prohibited items (e.g., phones, bags, and other personal effects)
4. ensure that the wireless function of permitted electronic devices (e.g., laptops) is turned off prior to entering the lockup room

After news participants complete the sign-in process, they are allowed to enter the lockup room. The Board's procedures also include having a law enforcement officer stationed at the entrance to the lockup room.

### *Press Lockup Room Activities During the Embargo Period*

After the embargo period begins,<sup>4</sup> news participants are no longer permitted to enter or leave the lockup room until authorized by Board personnel. During our review period, the *FOMC Lock-up Procedure* provided instructions and timelines for press lockup room events during the embargo period. The procedures included the following activities:

1. Prior to distributing the embargoed information to news participants in the lockup room, a Board employee disables the data connection that provides the news participants' laptops with wired access to the Internet.
2. The Board provides the embargoed information for review to news participants for a predefined period of time before its official release.
3. During the embargo period, news participants review the information provided by the Board.
4. Shortly before the official release time, Board personnel escort television news participants from the lockup room to a designated broadcast area.
5. At the official release time, a Board employee reenables the data connection that provides the news participants' laptops access to the Internet and announces that news participants may release or broadcast the information.

### **Embargo Application**

The Board's embargo application enables news participants to remotely access embargoed information. During our review period, the Board embargoed certain economic information through the embargo application, including the FOMC meeting minutes, the Beige Book, and

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4. A wall clock that, according to a Board employee, is automatically synchronized with the U.S. Naval Observatory master clock is used to determine when to execute the lockup room activities according to established timelines.

the PFEIs.<sup>5</sup> The Board noted that it uses the application because it “track[s] which users receive sensitive information, requires signed agreements from users and their news organizations, establish[es] objective criteria for access, and includes a means of temporarily or permanently blocking access to users who violate the rules of access.”

### ***Approving News Organizations and Their News Participants for the Embargo Application***

Similar to the lockup room requirements, a news organization must submit a news organization agreement, a Bureau Chief letter, and a news participant agreement prior to the Board granting a news participant access to the embargo application. Further, the definition of a *news organization* in the news organization agreement for the embargo application is similar to the definition in the lockup room news organization agreement. For the embargo application users, the Board also requires the news participant to submit a security control form, which is an agreement that sets forth the Board’s requirements for using login credentials to access the embargo application.

### ***Embargo Application Activities During the Embargo Period***

According to Board procedures, Board personnel upload embargoed information to the embargo application and designate the embargo start and end times.<sup>6</sup> News participants are able to see posted information only during the embargo period. When the embargo ends, the embargo application denotes the information as released.

The Board maintains access logs for each release of information through the embargo application that record certain information about the users who accessed information through the embargo application. This information includes the name of the news participant associated with the user identification (ID), the name of the files accessed, and the date and time of access.

### ***Additional Guidance Relevant to the Embargo Processes***

There are several federal government standards and practices relevant to the Board’s embargo processes, including the following:

- OMB’s *Statistical Policy Directive No. 3: Compilation, Release, and Evaluation of Principal Federal Economic Indicators (Statistical Policy Directive No. 3)* applies to the Board’s release of PFEIs. The purpose of the directive is “to assure that these data series meet specific accuracy, release, and accountability standards.”
- The U.S. Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* provides guidance to federal agencies for establishing and

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5. Other publications that are outside the scope of this audit also are provided to news organizations through the embargo application.

6. The embargo application clock is synchronized with the U.S. Naval Observatory master clock, according to the Board.

maintaining systems of internal control and identifying and addressing areas at greatest risk for fraud, waste, abuse, and mismanagement.

- The National Institute of Standards and Technology’s (NIST) Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* (SP 800-53) provides guidelines for selecting and specifying security controls for organizations and information systems.

In addition, the Board and the FOMC publish guidance related to the classification and handling of their respective information. This guidance includes the following:

- The *Program for Security of FOMC Information* describes what confidential FOMC information is, how it is classified, who has access to it, how it should be handled, and who is responsible for ensuring that it is protected.
- The Board’s *Information Classification and Handling Standard* defines specific classification and handling requirements for printed and digital information of the Board.

### ***Other Federal Agencies That Release Sensitive Economic Information***

Other federal agencies release sensitive economic information that has the potential to influence financial market activity. We conducted research on and had discussions with some of these agencies. We learned that some agencies provide sensitive economic information under embargo through lockup facilities and one agency posts information directly on its public website without an embargo.

### ***Significant Events During the Audit***

On July 16, 2015, we issued an early alert memorandum to the Director of BDM to bring to the Board’s immediate attention concerns regarding the safeguarding of sensitive economic information when provided to news organizations under embargo. The restricted memorandum<sup>7</sup> described our initial audit observations and provided recommendations to strengthen controls in the Board’s embargo processes. On July 21, 2015, the Board responded to the OIG’s early alert memorandum. In its response, the Board identified certain actions it had taken to address the initial observations and noted that it would continue to evaluate its processes to mitigate the risks identified by the OIG.

On August 19, 2015, a news organization broke the Board’s embargo of the FOMC meeting minutes that had been provided through the embargo application. On August 21, 2015, the Board ceased using the embargo application to provide the FOMC meeting minutes, Beige Book, and two of the four PFEIs (“Industrial Production” and “Consumer Credit”) under embargo to news organizations; the lockup room is now used to release this information. In

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7. The Board’s *Information Classification and Handling Standard* requires Board staff to restrict access to information that poses certain risks to the Board if disclosed, such as potential control vulnerabilities in the embargo processes.

addition, the Board stopped providing the two remaining PFEIs (“Reserve Balances” and “Money Stock Measures”) under embargo after it determined there was limited interest in receiving early access to this information.<sup>8</sup> According to a Board official, the Board had been planning to transition these publications from the embargo application to the lockup room, and it accelerated this transition after the embargo break.

Table 1 provides a summary of the changes the Board made with respect to its embargo processes for the economic publications in our audit’s scope.

**Table 1: Changes to How the Board Provides Embargoed Access to Certain Economic Publications, Effective August 21, 2015**

Publication	Embargo process used during our period of review	Embargo process currently used
FOMC statement	lockup room	lockup room
FOMC Summary of Economic Projections	lockup room	lockup room
FOMC meeting minutes	embargo application	lockup room
Beige Book	embargo application	lockup room
“Industrial Production”	embargo application	lockup room
“Consumer Credit”	embargo application	lockup room
“Reserve Balances”	embargo application	n.a. <sup>a</sup>
“Money Stock Measures”	embargo application	n.a. <sup>a</sup>

Source: OIG analysis based on information provided by Board officials.

n.a. not applicable.

<sup>a</sup>“Reserve Balances” and “Money Stock Measures” are published directly to the Board’s public website without an embargo as of September 2, 2015.

In September 2015, the Board relocated its press lockup room from a dining room in the Martin Building to its leased office space, a move that had already been planned prior to the start of our audit. As noted, we conducted a live observation in the relocated press lockup room on March 2, 2016, when the Board released the Beige Book under embargo. In addition, the Board updated its lockup procedures, news participant agreement, and news organization agreement to reflect these changes. According to Board officials, the Board currently is updating additional policies and procedures as a result of recent changes to its embargo processes.

8. The Board continues to use the embargo application to provide news organizations access to other embargoed information, such as congressional testimony and other economic publications.

# Finding 1: The Board Has Limited Controls to Prevent Unauthorized Disclosure of Sensitive Information Provided Through the Embargo Application

We found limitations in information security controls that could expose the Board to risks of unauthorized disclosure of economic information provided through its embargo application. Given the sensitivity of our information security review work, our reports in this area are generally restricted. In accordance with this practice, we are restricting the details of this finding. The detailed finding was reported to the Board under separate cover on March 17, 2016.

## Recommendation

We recommend that the Director of BDM

1. Analyze the sensitivity of the remaining embargoed information provided through the embargo application and document the decision as to whether the benefits of providing this access outweigh the risks of unauthorized disclosure.

## Management's Response

In her response to our draft report, the Director of BDM generally concurs with our recommendation. She notes that none of the information within the OIG's scope is currently being released through the embargo application. In addition, BDM will review and consider the sensitivity of the remaining information provided through the embargo application.

## OIG Comment

The actions described by the Director of BDM are generally responsive to our recommendation. We concur that BDM should review and consider the sensitivity of the remaining information provided through the embargo application. We emphasize the need to document the decision as to whether the benefits of providing this access outweigh the risks of unauthorized disclosure. We plan to follow up on BDM's actions to ensure that the recommendation is fully addressed.

## Finding 2: The Board Did Not Fully Adhere to Its Press Lockup Room Procedures

During our June 17, 2015, live observation in the Board's former lockup room location, we found that the Board did not ensure that news participants completed each step of the sign-in process before entering the lockup room. We also found that the Board could enhance controls to prevent unauthorized access. In addition, the Board did not employ effective methods to detect potential wireless activity within the lockup room and did not record the times at which it disabled and reenabled Internet connectivity for news participants in the lockup room. The Board's policies and procedures in effect throughout our review period described several controls, such as a lockup room sign-in process for news participants and monitoring for wireless signals in the lockup room, that were designed to help ensure that embargoed information is protected from unauthorized disclosure. In addition, NIST information security standards and GAO internal control standards require documentation of significant events, including when such events occurred.<sup>9</sup> Nevertheless, the Board did not adhere to controls within its policies and procedures during the sign-in process, had implemented limited controls to prevent and detect wireless activity, and did not record the times at which it disabled and reenabled Internet connectivity in the former lockup room. Without adhering to and strengthening its controls, the Board increases the risk of unauthorized disclosure of embargoed information.

### The Board Did Not Ensure That News Participants Completed the Press Lockup Room Sign-In Process

We identified multiple instances during our review period in which the Board did not ensure that news participants completed each step of the sign-in process before entering the lockup room. We observed the sign-in process for the press lockup room on June 17, 2015, in the Board's Martin Building and saw that news participants often arrived in groups, which made it difficult for Board personnel to keep track of who had completed the required sign-in activities, including whether they had surrendered prohibited items. According to the *FOMC Lock-up Media Check-in Procedure*, Board personnel should verify that the news participants complete the sign-in process, which includes documenting certain information on the sign-in sheet and surrendering prohibited items, such as bags, personal effects, and certain electronic devices, before entering the lockup room.

During our live observation on June 17, 2015, the sign-in sheet listed 45 participants in attendance; however, we counted 49 news participants in the lockup room during the embargo period. We noted that one participant updated his participant agreement during the sign-in process but did not complete the sign-in sheet. We also observed that a tote bag, which is a prohibited item that should have been surrendered during the sign-in process, was brought into the lockup room.

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9. The exact time period during which Internet connectivity is available to news participants is significant because it signifies the beginning and end of the embargo period.

In addition, we noted missing information on some of the sign-in sheets for the other lockup events within our scope, as follows:<sup>10</sup>

- We found 45 instances in which news participants had a missing name, signature, or date/time on the sign-in sheet.
- We found 91 instances in which news participants did not certify on the sign-in sheet that electronic devices had been surrendered prior to entering the lockup room.

Although we could not verify whether news participants brought electronic devices into the lockup room for any of the lockup events in our scope, we noted that the Board's policies and procedures did not include an additional control, such as a metal detection device outside the lockup room, to ensure that news participants surrendered prohibited items prior to entering the lockup room. We noted that other federal agencies deploy a metal detection device at the entrance of their lockup room to enforce requirements related to prohibited electronic devices.

We also noted during our live observation on June 17, 2015, that the Board law enforcement officer stationed at the lockup room door did not have a way to identify whether news participants trying to enter the lockup room had completed the sign-in process. The procedures given to the law enforcement officer did not include a control, such as providing a fully signed-in news participant with a badge or other visual indicator, that would signal to the law enforcement officer that the news participant should be granted entry to the lockup room. By ensuring that news participants complete each step of the sign-in process, the Board can reduce the risk of having unauthorized participants and prohibited items in the lockup room.

## **The Board Had Limited Ability to Detect Wireless Signals in the Press Lockup Room**

We noted during our live observation on June 17, 2015, that the Board's controls to detect wireless activity in the lockup room were limited. During the sign-in process, the Board relied on news participants to certify that they surrendered prohibited electronic devices. Board personnel were to check that the wireless function of news participants' laptops was disabled prior to entering the lockup room. The only controls within the lockup room, however, were Board personnel periodically walking around the lockup room to monitor whether any news participants' laptops had the standard wireless function enabled. Board personnel conducting the monitoring had limited visibility of some news participants' laptops because of their distance from the laptop or the angle from which they were attempting to view the laptop.

We also did not observe Board personnel deploying a wireless signal monitoring system during our live observation of the lockup room on June 17, 2015. The lockup room news organization agreement specifies that the Board may deploy a signal monitoring system in its lockup facilities that detects activity created by cellular phones, wireless access cards, and Wi-Fi equipment. We found that other federal agencies use signal monitoring systems as a tool to detect wireless activity in their lockup rooms. We are aware that the physical characteristics and location of the Board's former lockup room made it impractical to use a signal monitoring system; however, without adequate prevention and detection of wireless signals within the lockup room, news

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10. Based on our review of the sign-in sheets for the 10 lockup events within our scope, the number of news participants who attended ranged from 20 to 53 for each event.

participants may be able to use wireless capability to externally communicate embargoed sensitive economic information from the lockup room.

## **The Board Did Not Record the Exact Time It Disabled and Reenabled Internet Connectivity**

During the period of our review, the Board did not record the exact times at which it disabled and reenabled Internet connectivity in the former lockup room. Assuming that news participants in the lockup room do not have prohibited wireless connectivity, they are only able to release information after the Board reestablishes Internet connectivity. NIST SP 800-53 requires that an information system generate audit records that include information as to when events occurred. In addition, GAO's *Standards for Internal Control in the Federal Government* states that significant events should be clearly documented and should be readily available for examination. According to Division of Information Technology personnel, the network switch used for the press lockup room was not configured to record the exact time the Board disabled and reenabled the data connection in the lockup room. Capturing the time that Internet connectivity is disabled allows the Board to be sure that news participants did not transmit information while under embargo. In addition, capturing the time that Internet connectivity is reenabled allows the Board to ensure that the embargo is lifted at the intended time. If the Board does not record the exact time it disables and reenables Internet connectivity, the Board may be unable to recreate the exact series of events should an embargo break occur in the lockup room.

## **Management Actions Taken During the Audit**

On July 16, 2015, the OIG issued an early alert memorandum that recommended that BDM

- enforce a more orderly sign-in process that enables Board personnel to verify and document that each news participant has completed each step in the sign-in process
- implement an additional control, such as issuance of a separate badge or other visual indicator, to news participants who have completed the sign-in process so that the law enforcement officer who guards the press lockup room door can confirm that a news participant is approved for entry
- implement additional controls, such as a metal detection device and a signal monitoring tool, to prevent and detect wireless signals within the press lockup room

The Board has communicated to the OIG the following actions or plans related to our initial recommendations. Where applicable, we noted instances in which our March 2, 2016, observation supported management's actions taken during the audit.

- *Improvements related to ensuring a complete sign-in process.* In the Board's July 21, 2015, response, the Director of BDM described immediate changes the Board planned to make for the next lockup event, which was to be held in the Martin Building lockup room on July 29, 2015. On that day, the OIG performed a walkthrough of the lockup event and noted that the Board had modified the physical layout to facilitate a more orderly sign-in process. In addition, the Board informed us that separate employees would be responsible

for each sign-in step, and that identification tags would enable the law enforcement officer to identify which individuals had completed the sign-in process. The law enforcement officer also was to use a metal detector wand to check participants for prohibited items.

On March 2, 2016, we conducted a live observation of the relocated press lockup room. We observed that the Board enforced a more orderly sign-in process by requiring news participants to (1) walk through a metal detection device when entering the Board's leased office space, (2) store any prohibited items in lockers, (3) confirm that their paperwork was complete and up to date, and (4) walk through a second metal detection device just before entering the lockup room. The improvements to the sign-in process permit the law enforcement officer who guards the press lockup room to confirm that a news participant is approved for entry.

- *Additional measures to prevent wireless signals.* On August 6, 2015, Public Affairs personnel notified news organizations that laptop computers will not be permitted in the Board's new press lockup room in its leased office space. The Board now requires news organizations to purchase desktop computers that do not contain Wi-Fi, Bluetooth, cellular, or other wireless capability from a well-known and generally trusted manufacturer (or an authorized reseller) and have them shipped directly to the Board. According to a Board official, the Board inspected the computers prior to their installation in the press lockup room, and the computers must be kept onsite at Board facilities. In addition, "installation and routine maintenance" of each authorized computer must be coordinated with Public Affairs and the Division of Information Technology. These changes were reflected in the updates to the Board's agreements that were sent to news participants in September 2015.

During our live observation of the relocated press lockup room on March 2, 2016, we observed that the Board's use of metal detection devices helps to prevent wireless signals within the press lockup room because these devices limit the news participants' ability to bring in prohibited items, such as electronic devices.

- *Strengthening the detection of wireless signals.* During our audit, Board personnel informed us that the Board chose a signal monitoring tool for the new lockup location and was determining how to implement it.

During our live observation of the relocated press lockup room on March 2, 2016, we observed that the Board had implemented a signal monitoring tool that detects wireless signals within the lockup room.

We also observed during our live observation on March 2, 2016, that the Board recorded the exact time that Internet connectivity was disabled and reenabled for news participants in the press lockup room.

The OIG's audit follow-up work will assess the Board's implementation of certain actions or plans for the lockup process. Accordingly, our early alert recommendation related to verifying and documenting that each news participant has completed each step in the sign-in process remains open.

## **Recommendation**

We recommend that the Director of BDM

2. Verify and document that each news participant has completed each step in the sign-in process before accessing the press lockup room.

## **Management's Response**

In her response to our draft report, the Director of BDM generally concurs with our recommendation. She notes that the process for checking in and accessing the Board's lockup room changed following the move to its current location; the process now includes stationing a law enforcement officer at the lockup room's entrance to observe that each participant is approved for entry. In addition, BDM plans to adjust its paperwork to better document that sign-in procedures have been followed at each lock-up event.

## **OIG Comment**

The actions described by the Director of BDM appear to be responsive to our recommendation. We plan to follow up on BDM's actions to ensure that the recommendation is fully addressed.

# Finding 3: The Board Could Not Provide Evidence That All News Organizations and News Participants Submitted Required Documents

The Board could not provide evidence to the OIG that each news organization and news participant submitted the required documents prior to being granted access to embargoed information. The Board requires all news participants to submit a news organization agreement, a Bureau Chief letter, and a news participant agreement prior to being approved for access. For news participants accessing the embargo application, a security control form also is required. These documents serve as a critical control in communicating, among other things, the obligations for protecting embargoed information and securing news participants' acknowledgement that they will comply with the requirements. At the time of our review, the Board retained documents in a decentralized manner, making it difficult to provide the documents requested by the OIG. Without a proper records management process, the Board may not be able to readily confirm that news participants have been made fully aware of their obligations and that they agreed in writing to abide by the Board's requirements.

## The Board Could Not Provide the OIG With Required Documents for Certain News Participants

In April 2015, we requested that the Board provide us with all the required agreements, letters, and forms that news organizations and news participants should have submitted prior to having been granted access to embargoed information during the period of our review. As of October 31, 2015, the Board had provided all required news participant agreements and the corresponding security control forms for those individuals who accessed the embargo application for all but one release in our scope.<sup>11</sup> However, for the period of our review, the Board was unable to fulfill the OIG's request with respect to news organization agreements, Bureau Chief letters, and lockup room participant agreements, as follows:

- *News organization agreement.* The Board could not provide the news organization agreement for
  - 1 of the 22 unique news organizations whose participants accessed embargoed information through the embargo application
  - 1 of the 23 unique news organizations whose participants accessed lockup room events
- *Bureau Chief letter.* The Board could not provide the Bureau Chief letters for
  - 30 of the 44 unique users who accessed one or more economic releases through the embargo application
  - 49 of the 85 unique news participants who accessed one or more lockup events

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11. The Board was unable to provide information on which news participants accessed one release in our scope via the embargo application. For additional details regarding our scope and methodology, see appendix A.

- *Lockup room participant agreement.* The Board could not provide a current lockup room participant agreement for 19 of the 85 unique news participants who accessed one or more lockup events.<sup>12</sup>

The news organization agreements for both the lockup room and the embargo application require these documents to be submitted to the Board for each news participant to receive access to embargoed information. In addition, NIST SP 800-53 states that individuals requiring access to information and information systems sign appropriate access agreements prior to being granted access. Further, GAO's *Standards for Internal Control in the Federal Government* states that significant events need to be clearly documented and should be readily available for examination. It also states, "All documentation and records should be properly managed and maintained."

The Board had difficulty locating and timely providing the documentation that the OIG requested. For example, the Board could not provide certain news participant agreements for the embargo application until at least four months after the OIG's initial request. According to Public Affairs personnel, the records requested by the OIG were maintained by several individuals in different locations. This decentralization made it difficult for the Board to have documents readily available for review.

Without the ability to readily locate the required documentation, the Board may not be able to timely verify which news organizations and news participants require updated agreements or Bureau Chief letters. Additionally, without the Board ensuring that each news participant has a current agreement when embargoed information is accessed, news participants (1) may not be aware of any changes to their obligations regarding nondisclosure when accessing embargoed information and (2) are not providing a written commitment to the Board that they will abide by the Board's requirements.

## Management Actions Taken During the Audit

Our July 16, 2015, early alert memorandum recommended that the Director of BDM obtain required documents prior to granting news participants access to embargoed sensitive economic information through the press lockup room and the embargo application. In the Board's July 21, 2015, response, the Director of BDM notes,

To the extent that gaps in paperwork exist, [the Board] will obtain the required documents prior to continuing to provide prerelease access to those participants. [The Board] also plan[s] to change [its] filing system to ensure paperwork is more easily retrievable. Additionally, as part of the planned lockup move to [the Board's leased office space], all news organizations and lockup participants will have to sign new agreements.

Although Public Affairs was able to provide additional documents after our early alert memorandum, we had not received all the outstanding documentation as of October 31, 2015.

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12. The lockup room participant agreement expires after one year; each of the 19 news participants had expired agreements when they accessed embargoed information.

## Recommendations

We recommend that the Director of BDM

3. Verify that all required documents have been received prior to granting news participants access to embargoed information through the press lockup room and the embargo application.
4. Establish a records management process to facilitate the retrieval of documents required for news organizations and news participants to access embargoed information.

## Management's Response

In her response to our draft report, the Director of BDM generally concurs with our recommendations. For recommendation 3, she notes that BDM required all news organizations and news participants to sign new agreements prior to using the new lockup room in September 2015. In addition, news organizations are required to send a list of reporters requiring access to lockups monthly, so that Public Affairs can check this list against the paperwork received. News organizations also must submit a new list of potential lockup participants each June, and participants must re-sign participant agreements at that time.

The Director of BDM also notes that BDM is in the process of having all news organizations and news participants submit new paperwork for access to the embargo application. She states that news organizations have an obligation to report when individual users change jobs or otherwise no longer require access. Further, organizations have an incentive to report when a user no longer requires access: Because each organization has a limited number of accounts for the application, replacement users will need former users' accounts. News organizations must also resubmit their list of authorized users in June and December of each year, and users must re-sign user agreements each June.

For recommendation 4, the Director of BDM notes that completed lockup and embargo application paperwork is stored in a central file, is easily retrievable, and is delineated by news organization. BDM plans to seek advice from the Board's Office of the Secretary regarding a retention schedule for documents related to news organizations and news participants who no longer require or are authorized to access embargoed information.

## OIG Comment

The actions described by the Director of BDM appear to be responsive to our recommendations. We plan to follow up on BDM's actions to ensure that the recommendations are fully addressed.

## Finding 4: The Board Could Not Provide Evidence That It Performed Required Evaluations of News Organizations

The Board could not provide evidence that it completed required evaluations of news organizations with access to information under embargo. Provisions in the Board's news organization agreements require the Board to routinely evaluate certain attributes of, or processes within, the news organizations to determine whether the organizations remain eligible to access embargoed information. Although these evaluations are described in the agreements, they are not requirements that are documented in Board policies and procedures. In addition, the Board did not enforce the agreements' requirements that news organizations submit the information necessary for the Board to conduct the evaluations. Without regularly evaluating the news organizations, the Board is not consistently implementing the controls it has identified as necessary to protect embargoed information.

### The Board Could Not Provide Evidence That Required Evaluations Were Completed

The Board's news organization agreements list three evaluations that the Board must conduct of news organizations that have approved access to embargoed information; however, the Board could not provide evidence that the evaluations that should have been conducted during our review period had been completed. The three evaluations are as follows:

- *Annual evaluation of whether news organizations continue to have certain characteristics and advance the purpose of the embargo process.* The lockup room news organization agreement states that the Board will review news organizations on an annual basis to ensure that they continue to meet the characteristics required for news organizations to participate in lockup events and that their inclusion in lockup events continues to advance the purpose of the embargo process. The purpose of this evaluation is to ensure that news organizations with access to embargoed information have the appropriate characteristics and align with the intended purpose of the Board's embargo process.
- *Semiannual evaluation of whether news organizations revalidate current users of the embargo application.* The news organization agreement for the embargo application requires news organizations to revalidate their assigned users on a semiannual basis and communicate to the Board whether approved users continue to need access to embargoed information. In addition, the Board's *Access Control and Authentication Standard* states that information system owners must review information system accounts at least annually to ensure necessary and appropriate access. The purpose of this evaluation is to help the Board proactively identify news participants who may no longer need or should no longer have access to the embargo application, so that the access can be disabled.
- *Initial and annual evaluation of how news organizations protect embargoed information.* The news organization agreement for the embargo application states that news organizations agree to comply with the Board's security measures and prevent unauthorized access to embargoed information. To ensure that news organizations meet

these requirements, the Board requires news organizations to submit, prior to requesting login credentials for any user and annually thereafter, a report detailing how the news organization protects embargoed information. The purpose of this evaluation is ensure that news organizations have sufficient controls to protect sensitive economic information from unauthorized disclosure. The Board could not provide evidence that reports for 14 of the 22 unique news organizations were submitted prior to the Board granting access to the embargo application. In addition, the Board could not provide evidence that any news organizations annually resubmitted their reports after access had been granted.

Although these controls are included in the news organization agreements, the Board's *Public Release Procedures* does not reinforce that the Board is to conduct and document the evaluations of the news organizations. In addition, the Board did not enforce the controls that require news organizations to submit the necessary information so that the Board could conduct the evaluations. Without completing these evaluations, the Board may be unable to determine whether news organizations and their news participants should continue to have access to embargoed information and have sufficient controls to protect embargoed information from unauthorized disclosure.

## Management Actions Taken During the Audit

Our July 16, 2015, early alert memorandum recommended that the Director of BDM request that all approved news organizations revalidate their list of application users. In addition, we recommended that the Director of BDM disable the access of all the users of the embargo application who either no longer have a need for embargoed information or have not completed all required documents for access. On July 20, 2015, the Board sent an e-mail to the news organizations requesting that they revalidate their embargo application users. In the Board's July 21, 2015, response to our early alert memorandum, the Director of BDM notes, "Per [our] procedures, access to [the embargo application] is disabled as soon as [we] are informed that a user or organization no longer requires access to pre-release information. [BDM] will adjust access accordingly as a result of the revalidation discussed [above]."

The Board provided the OIG with the news organizations' revalidation responses and a list of active users. We compared the revalidation responses to the Board's list of active users of the embargo application and noted the following discrepancies:

- Revalidation responses for two news organizations with users identified as active on the Board's list of active users in the embargo application were not provided.
- Five news participants who were identified by news organizations as active users were not on the Board's list of active users in the embargo application.
- One news participant who was identified by the Board as an active user was not on the news organization's list of active users in the embargo application.

In our early alert memorandum, we recommended that BDM disable the access of all news organization users in the embargo application who either no longer have a need for embargoed information or have not completed all required documents for access. Because required documents for some users remain outstanding and the discrepancies we noted above were not

fully addressed, our recommendation related to disabling users in the embargo application remains open.

## Recommendations

We recommend that the Director of BDM

5. Disable the embargo application access of all news participants who either no longer have a need for embargoed information or have not completed all required documents for access.
6. Update the Board's policies and procedures to require the Board to enforce the news organizations' regular submission of information and to complete the evaluations that are stipulated in the news organization agreements, as follows:
  - a. annually assess whether news organizations continue to meet the Board's definition of a news organization and advance the purpose of the embargo process.
  - b. semiannually require the news organizations to revalidate their users of the embargo application so that the Board can evaluate whether news participants continue to need access to embargoed information.
  - c. annually require the news organizations to submit reports so that the Board can evaluate whether the procedures, if followed, are sufficient to protect embargoed information provided through the embargo application.

## Management's Response

In her response to our draft report, the Director of BDM generally concurs with our recommendations. For recommendation 5, she notes that BDM's practice is to immediately disable access for users as soon as BDM is informed that access is no longer required. In addition, access is removed if a user is not on the list of authorized users submitted semiannually by each news organization. BDM plans to attach a note to a user's existing documentation if the user is deactivated and move that paperwork to an inactive file.

For recommendation 6, the Director of BDM states that BDM will assess whether each news organization continues to meet the Board's definition of a news organization each June, continue to require that news organizations revalidate their embargo application users each June and December, and review news organizations' practices and procedures for handling embargoed information each June.

## OIG Comment

For recommendation 5, the actions described by the Director of BDM appear to be responsive to our recommendation. For recommendation 6, the actions described by the Director of BDM are generally responsive to our recommendation. While we concur that BDM should complete the three evaluations noted in our recommendation, we emphasize the need to update the Board's policies and procedures to require the Board to enforce the news organizations' regular submission of information and to complete the evaluations that are stipulated in the news organization agreements. We plan to follow up on BDM's actions to ensure that the recommendations are fully addressed.

# Finding 5: The Classification and Handling Requirements for Embargoed Information Are Not Clearly Documented

Although the sensitive economic information that the Board releases is provided an internal classification when it is produced, it is not clear when this classification, and the associated handling requirements, no longer apply. Further, certain releases are not labeled as embargoed when they are provided to news organizations in advance of their official release. We noted that other federal agencies that provide sensitive information to news organizations under embargo label their publications as being under embargo, which confers certain handling requirements. The Board's and the FOMC's classification and handling guidance documents describe certain measures to be taken to protect information, but they do not specifically address the applicability of these internal classification and handling requirements to publications provided under embargo or require that information provided under embargo to be labeled as such. Properly identifying and communicating the classification and handling requirements of embargoed information can strengthen the Board's controls to prevent unauthorized disclosure.

## **Board and FOMC Guidance Do Not Describe How Embargoed Information Should Be Handled**

The Board and the FOMC have information classification systems that are detailed in the *Information Classification and Handling Standard* and the *Program for Security of FOMC Information*, respectively. According to these documents, information must be assigned one of multiple internal classifications, depending on the sensitivity of the information. The assigned internal classification instructs Board employees on how they may grant access to, handle, or transmit the information; however, neither the *Information Classification and Handling Standard* nor the *Program for Security of FOMC Information* specifically address the applicability of the internal classification and handling requirements to publications provided under embargo to news organizations.

In the absence of clear guidance, various Board officials with whom we spoke had different perspectives as to when the internal classification of embargoed information was no longer in effect. For example, one individual noted that the embargoed information was probably not internally classified but should still be protected from unauthorized disclosure, and another individual believed the information retained its original internal classification until the publication's official release.

We also found differing approaches to the labeling of documents provided under embargo. During our review period, the FOMC statements, the FOMC meeting minutes, and certain "Reserve Balances" were not labeled as embargoed when they were provided to news organizations under embargo; however, the Summary of Economic Projections, the Beige Book, "Industrial Production," "Consumer Credit," and "Money Stock Measures" had wording in the header to convey that they were under embargo until the identified official release date and time.

Determining how internal classifications apply during the embargo process will help the Board to ensure that the handling of embargoed information aligns with the Board's and the FOMC's

classification and handling guidance. Further, clearly labeling embargoed documents will communicate their status to all individuals who may gain access to the information either intentionally or accidentally. This labeling will help the Board to ensure that individuals who access the sensitive economic information during the embargo process are aware that the information should not be released until a specified date and time.

## Recommendations

We recommend that the Director of BDM, in collaboration with the Director of the Division of Monetary Affairs and the Director of the Division of Information Technology,

7. Conduct and document an analysis to determine how the classification and handling requirements established in the Board's *Information Classification and Handling Standard* and the FOMC's *Program for Security of FOMC Information* apply to documents during the embargo period and update relevant policies, as necessary.
8. Include wording at the top of each page of documents provided under embargo to convey, in plain language, their embargoed status and official release date and time.

## Management's Response

In her response to our draft report, the Director of BDM generally concurs with our recommendations. For recommendation 7, she notes that BDM has relayed the OIG's concern to the Division of Information Technology and the FOMC Secretariat, and work is underway to update the relevant policies.

For recommendation 8, she notes that release times are now clearly printed on the first page of each document within the scope of the audit, and embargoed documents are only distributed under secure conditions in the lockup room. In addition, the release time for documents distributed through the embargo application is clearly displayed in the application itself as well as in other places on the distributed documents. She stated that BDM will explore the feasibility of placing this information on each page of each document distributed through the embargo application.

## OIG Comment

For recommendation 7, the actions described by the Director of BDM are generally responsive to our recommendation. While we concur that BDM should update relevant policies, we emphasize the need to document the analysis BDM conducts to determine how the classification and handling requirements apply to documents during the embargo period. For recommendation 8, the actions described by the Director of BDM appear to be responsive to our recommendation. We plan to follow up on BDM's actions to ensure that the recommendations are fully addressed.

# Finding 6: The Board's Embargo Policies, Procedures, and Agreements Are Not Consistent or Comprehensive

The Board's policies, procedures, and agreements associated with the embargo process that were in effect for the period of our review are not consistent and do not fully address all important aspects of the current process. We found inconsistencies between the agreements for the lockup room and the embargo application. In addition, though the Board recently updated certain policies, procedures, and agreements to account for the new lockup room at its leased office space location, important aspects of the lockup room and the embargo application processes are not addressed. GAO's *Standards for Internal Control in the Federal Government* states that "all documentation and records should be properly managed and maintained," and that "management must continually assess and evaluate its internal control to assure that the control activities being used are effective and updated when necessary." Without consistent, comprehensive policies, procedures, and agreements, the Board may not be taking all appropriate measures to protect sensitive economic information provided under embargo to news organizations.

## Inconsistencies Exist Between Lockup Room and Embargo Application Agreements

There are inconsistencies between the agreements for the press lockup room and the embargo application. The agreements follow different templates, and each has different requirements for news participants and the Board. Inconsistencies the OIG identified include the following:

- *An annual review is required for the news organizations that participate in the lockup room but not for those that access information through the embargo application.* The lockup room news organization agreement requires the Board to annually review news organizations to ensure that they meet the agreement's definition of a *news organization* and continue to advance the purposes of the embargo process. The news organization agreement for the embargo application has no such requirement. Regularly verifying that embargoed access, regardless of the method, is granted only to appropriate news organizations would help the Board ensure that those news organizations advance the purposes of the embargo process.
- *The lockup room news participant agreement expires, whereas the news participant agreement for the embargo application does not.* The lockup participant agreement requires news participants to re-sign their participation agreement annually, but there is no corresponding requirement for news participants who access information through the embargo application. Requiring all news participants to renew their agreement annually would remind them of their responsibilities during the embargo period and would help the Board to identify those who no longer need access to embargoed information so that their access can be disabled.
- *Violation language varies between the news organization agreements for the lockup room and for the embargo application.* The lockup room news organization agreement explicitly states that violations of the terms and conditions of the agreement may be

referred to the appropriate authorities, whereas the news organization agreement for the embargo application does not include such language. Communicating the consequences of embargo breaks to all news organizations would reinforce the requirements of the agreement and may deter potential violators.

GAO's *Standards for Internal Control in the Federal Government* states that "Internal control . . . need[s] to be clearly documented," and that "[a]ll documentation and records should be properly managed and maintained." Public Affairs staff members acknowledged inconsistencies between the agreements and told us that the office is working with the Board's Legal Division to update the agreements.

## Gaps Exist in Embargo Policies, Procedures, and Agreements

We found that the embargo policies, procedures, and agreements did not address important aspects of the embargo processes and were outdated. We identified the following gaps between the policies, procedures, and agreements and the actual embargo processes:

- *The policies, procedures, and agreements do not require the Board to evaluate news organizations before granting them access to embargoed information.* The Board's news organization agreements list certain characteristics of news organizations; however, the agreements do not explicitly require the Board to evaluate whether news organizations have those characteristics prior to providing them with access to embargoed information. Although the lockup room news organization agreement requires the Board to review news organizations on an annual basis, it does not require the Board to initially assess them before granting them access. A Public Affairs official stated that Public Affairs staff members perform this initial analysis prior to granting news participants access, but they could not provide documentation of this analysis to the OIG. Evaluating news organizations before granting them access to embargoed information will help the Board ensure that it is providing access to sensitive economic information to only those who advance the purposes of the embargo process.
- *The policies, procedures, and agreements do not require the Board to evaluate the equipment news organizations use in the press lockup room to ensure that the Board's information security requirements are met.* During our review period, the lockup room news organization agreement required the news organization and its authorized news participants to take security precautions for their equipment; however, the Board did not have a process to assess whether its information security requirements were met. In September 2015, the Board issued new procedures that require news organizations to acquire computers that must be sent directly to the Board from the manufacturer and be kept onsite at Board facilities. Nonetheless, the new procedures do not require a periodic review of the computers to ensure that information security requirements continue to be met. If the Board does not periodically evaluate news organizations' equipment, it cannot ensure that the equipment continues to meet the Board's information security requirements. Periodically evaluating news organizations' equipment could help mitigate the risk that the sensitive economic information provided under embargo could be accessed by those who may be able to breach the news organizations' equipment.

- *The policies, procedures, and agreements do not identify specific steps the Board should take if news organizations violate embargo requirements.* Although the news organization agreements for the lockup room and the embargo application require news organizations to cooperate with the Board in the event of a violation, the Board did not have specific guidance on what actions it would take should an embargo break occur. Despite this lack of guidance, following the August 19, 2015, embargo break, the Board alerted all news participants of the embargo break, expedited the public release of the information, followed up with the news organization that broke the embargo to identify the cause of the break, identified corrective actions taken by the news organization, and determined appropriate sanctions. Documenting how to react to these types of situations may help the Board ensure that all violations are addressed in a fair and consistent manner.
- *The policies, procedures, and agreements do not describe the purpose of providing information under embargo.* Although there is no official policy or other document stating the Board’s purpose and objectives for providing information under embargo, a Board official informed us that the process is used to facilitate “smooth and accurate” reporting of sensitive economic information. GAO’s *Standards for Internal Control in the Federal Government* states that “management is responsible for developing the detailed policies, procedures, and practices to fit their agency’s operations.” Documenting the Board’s purpose and objectives for providing information under embargo will help the Board ensure that activities of the embargo processes contribute to the Board’s stated purpose.
- *The policies, procedures, and agreements are out of date.* We noted that certain procedures still contain references to embargo processes that the Board has not used since 2013. The Board recently updated certain lockup room policies and procedures in light of the relocation of the lockup room to the Board’s leased office space. Nonetheless, other policies and procedures continue to reference old processes. Updating policies, procedures, and agreements to reflect current processes and requirements will help the Board ensure that information is adequately protected during the embargo period.

The Board’s *Public Release Procedures* notes that it will be updated quarterly or as necessary. A periodic, thorough review of the policies, procedures, and agreements is necessary to ensure that they accurately reflect all parts of the lockup room and embargo application processes. Without a periodic and thorough review, the Board could take insufficient measures to protect embargoed information or be unable to ensure that the embargo processes continue to meet their purpose of ensuring the smooth and accurate dissemination of such information.

## Recommendation

We recommend that the Director of BDM

9. Revise the embargo policies, procedures, and agreements to ensure that they
  - a. reflect the current processes and controls, including addressing the gaps identified by the OIG.

- b. include consistent requirements for news organizations and news participants who have access to sensitive economic information provided under embargo, regardless of the method by which the information is provided.
- c. contain a requirement that the equipment used to access embargoed information from within the lockup room is reviewed regularly to ensure that it meets the Board's information security requirements.
- d. include specific steps for Board personnel to take when news organizations violate embargo requirements.
- e. formalize as a policy statement the purpose of providing information under embargo.

## **Management's Response**

In her response to our draft report, the Director of BDM generally concurs with our recommendation. She notes that BDM has revised its policies and procedures to address the matters identified by the OIG and to (except where necessary because of differences in process) harmonize requirements for access to embargoed information regardless of the method through which the information is provided. In addition, BDM plans to document existing practices followed by Board personnel when news organizations violate embargo requirements and incorporate a formal statement of the purpose of providing information under embargo.

The Director of BDM also notes that equipment used in the Board's lockup room is verified to meet the Board's requirements on installation and sealed. Further, maintenance must be conducted in the presence of Board personnel, and seals are checked at the conclusion of each monthly maintenance window.

## **OIG Comment**

The actions described by the Director of BDM appear to be responsive to our recommendation. We plan to follow up on BDM's actions to ensure that the recommendation is fully addressed.

# Matter for Management's Consideration

Current technology enables traders to act on market-moving information instantly. In March 2015, staff at the U.S. Commodity Futures Trading Commission noted,

Over the last decade, U.S. markets have seen an increased use of technology . . . to generate trading or routing decisions, [which] are commonly classified under the general market term “automated trading.”<sup>13</sup>

Automated traders are able to execute trades the instant relevant market data become available. Certain organizations offer high-speed feeds to provide information instantly to these types of traders. At least five news organizations that participated in the Board's lockup events during our review period either provide high-speed feeds or partner with organizations that do. Three of these news organizations, or their partners, publicly advertise their access to embargoed information to attract new subscribers.

- One high-speed feed provider partnered with a news organization that had access to Board lockup events. The provider advertised that its feed included information from the Federal Reserve, the U.S. Department of Commerce, the U.S. Department of Labor, and the U.S. Department of the Treasury. The advertisement claimed that subscribers may collaborate with reporters from the news organization on questions to ask federal economists inside lockup facilities to develop data sets.<sup>14</sup>
- Another high-speed feed provider that owns an approved news organization advertised that its feed, which is designed for direct integration into trading algorithms, can transmit data directly from government lockups and offers embargoed releases instantly after their official release time.

Some high-speed traders pay significant fees for high-speed feed subscriptions. The price of high-speed feed subscriptions typically was not listed in the news organizations' advertisements, but it has been reported that some financial firms paid \$375,000 annually to an organization that offered high-speed feeds from a U.S. Department of Labor lockup event.<sup>15</sup> Accordingly, organizations are advertising, and potentially profiting from, their access to sensitive economic information that the Board provides under embargo.

As the Board formalizes its policy statement documenting the purpose of providing information under embargo as recommended above, the Board should consider how news

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13. Richard Haynes and John S. Roberts, *Automated Trading in Futures Markets*, U.S. Commodity Futures Trading Commission, March 2015.

14. According to a Public Affairs official, Board economists are not in the lockup room to answer news participants' questions. We also did not observe any Board economists present in the lockup room during either of our live observations on June 17, 2015, and March 2, 2016.

15. Brody Mullins and Scott Patterson, “Deutsche Börse's News Service for Traders Draws Scrutiny of Investigators,” *Wall Street Journal*, updated August 12, 2013.

organizations are using their access to embargoed information and whether such activities advance the Board's stated purpose.

# Appendix A

## Scope and Methodology

### Scope

Our scope covered the Board’s embargo application and lockup room processes through which the Board provided news organizations with access to certain Board economic publications under embargo from April 2014 through March 2015. We also conducted two live observations of the press lockup room: (1) on June 17, 2015, when an FOMC statement and Summary of Economic Projections were released to the public, and (2) on March 2, 2016, when a Beige Book was released to the public. Table A-1 describes the releases and publications in the OIG’s scope.

**Table A-1: In-Scope Information Provided Under Embargo, April 2014 to March 2015**

Economic publication	Description	Release schedule	Official release time
FOMC statement	FOMC’s views on the path of the economy and on monetary policy	8 each year; after each FOMC meeting	2:00 p.m.
Summary of Economic Projections	Economic projections of FOMC participants	4 each year; after each March, June, September, and December FOMC meeting	2:00 p.m.
FOMC meeting minutes	Report on all matters of policy discussed and views presented in the FOMC meeting, all policy actions taken by the FOMC and the reasons therefore, and the vote by individual FOMC members on each policy action	8 each year; three weeks after each FOMC meeting	2:00 p.m.
Beige Book	Summary of anecdotal information (by District and sector) gathered from each Federal Reserve Bank on current economic conditions in its District through reports from Bank and Branch Directors and interviews with key business contacts, economists, market experts, and other sources	8 each year; two weeks before each FOMC meeting	2:00 p.m.
“Industrial Production”	Monthly index of industrial production and the related capacity indexes and capacity utilization rates, covering manufacturing, mining, and electric and gas utilities	12 per year; near the middle of each month	9:15 a.m.

Economic publication	Description	Release schedule	Official release time
"Consumer Credit"	Report on outstanding credit extended to individuals for household, family, and other personal expenditures, excluding loans secured by real estate; selected terms of credit, including interest rates on new car loans, personal loans, and credit card plans at commercial banks; and series that measure the terms of credit for auto loans at finance companies	12 per year; fifth working day of each month	3:00 p.m.
"Reserve Balances"	Presents a balance sheet for each Federal Reserve Bank; a consolidated balance sheet for all 12 Federal Reserve Banks; an associated statement that lists the factors affecting reserve balances of depository institutions; and several other tables presenting information on the assets, liabilities, and commitments of the Federal Reserve Banks	52 per year; each Thursday <sup>a</sup>	4:30 p.m.
"Money Stock Measures"	Provides measures of the monetary aggregates (M1 and M2) and their components	52 per year; each Thursday <sup>a</sup>	4:30 p.m.

Source: OIG analysis based on the Board's *Public Release Procedures*.

<sup>a</sup>Because "Reserve Balances" and "Money Stock Measures" were released weekly, we decided to test a sample of 12 of these releases, or 23 percent of the 52 releases under scope. We tested 100 percent of the other in-scope releases during our period of review.

## Methodology

### ***Press Lockup Embargo Process***

To gain an understanding of the press lockup room process, we interviewed officials who were involved in the lockup process from BDM and the Division of Information Technology. We discussed their roles and responsibilities in the embargo process, the purpose of the embargo process, and the controls in place to prevent unauthorized disclosure of sensitive economic information provided under embargo to news participants. We also interviewed information owners to understand their role in the embargo process.

We reviewed the following Board policies, procedures, and agreements:

- *Board of Governors of the Federal Reserve System Press Lock-up Procedures*
- *FOMC Lock-up Media Check-in Procedure*
- *Board of Governors of the Federal Reserve System Press Lock-up News Organization Agreement*
- *Agreement for Participation in Board of Governors of the Federal Reserve System Lock-ups*

We reviewed these documents to identify key controls and the responsibilities of various parties in the lockup embargo process. We also considered external requirements provided in NIST SP 800-53.

We identified other agencies that provide access to sensitive economic information under embargo through press lockup rooms. We met with representatives of these agencies to learn about their embargo processes and identify controls used by other agencies to protect embargoed information.

We determined that we would perform testing for lockup events for the release of FOMC statements (and Summaries of Economic Projections, where applicable) under embargo from April 1, 2014, through March 31, 2015, which was a total of eight lockup events.<sup>16</sup> We also observed the lockup events for (1) the FOMC statement and Summary of Economic Projections on June 17, 2015, and (2) the Beige Book on March 2, 2016. Based on our interviews; research; and reviews of relevant policies, procedures, agreements, and federal guidance, we designed our testing to include the following steps:

- performing a walkthrough of the lockup room embargo process
- assessing whether the news participants fully completed the press lockup room sign-in sheets for our review period before entering the press lockup room
- reviewing whether the Board was in possession of, for every news organization and news participant who accessed the lockup room during our scope, (1) a press lockup room news organization agreement, (2) a press lockup room news participant agreement, and (3) a Bureau Chief letter
- determining whether the Board performed an annual review of news organizations as required by the press lockup room news organization agreement
- observing the sign-in process, lockup room activities, and broadcast process for the June 17, 2015, and March 2, 2016, lockup events
- reviewing and assessing the labeling of economic publications within our scope
- considering the Board's information technology security controls surrounding the lockup (including the Board's controls to monitor and restrict wireless communication) and the information technology security requirements for news organizations that use the lockup room

### ***Embargo Application Process***

To gain an understanding of the embargo application process, we interviewed officials who were involved in the embargo application activities from BDM and the Division of Information Technology. We discussed their roles and responsibilities in the embargo process, the purpose of the embargo process, and the controls in place to prevent unauthorized

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16. The OIG's analysis did not include certain testing steps for the April 30, 2014, and October 29, 2014, lockup room events because the Board provided the OIG with the related sign-in sheets after the OIG completed its fieldwork.

disclosure of sensitive economic information provided under embargo. We also interviewed information owners to understand their role in the embargo process.

We also reviewed the *Public Release Procedures* and the Board's policies, procedures, and agreements pertaining to the embargo application. We reviewed these documents to identify key controls and the responsibilities of various parties within the embargo application process. We also considered external requirements mandated by other agencies, which are captured in OMB's *Statistical Policy Directive No. 3* and NIST SP 800-53.

We evaluated certain embargo activities that occurred from April 1, 2014, through March 31, 2015. We determined that we would specifically test the FOMC minutes, the Beige Book, and the PFEI releases based on their potential to affect market activity. We tested each of the FOMC minutes, Beige Book, "Industrial Production," and "Consumer Credit" releases in our scope.<sup>17</sup> We selected a sample of the "Reserve Balances" and "Money Stock Measures" releases because they are released weekly. Based on our interviews and our reviews of relevant policies, procedures, agreements, and federal guidance, we designed our testing to include the following steps:

- performing a walkthrough of the embargo application
- reviewing whether the Board was in possession of, for every news organization and news participant who had access to the embargo application during our scope, (1) a news organization agreement, (2) a news participant agreement, (3) a Bureau Chief letter, and (4) a security control form
- determining whether the Board enforced the requirement that news organizations periodically revalidate their users who have access to the embargo application
- assessing whether the Board required news organizations to submit a list of controls prior to granting them access to the embargo application, and annually thereafter
- reviewing and assessing the labeling of economic publications within our scope
- considering the Board's information technology security controls surrounding the embargo application and the Board's information technology security requirements for news organizations that access sensitive economic information through the embargo application

On August 19, 2015, certain information from an FOMC meeting minutes release that was provided to news organizations through the embargo application was disclosed by a news organization prior to its official release time. We reviewed the circumstances of this premature disclosure, and the Board's response, to better understand how the Board handles embargo breaks.

We did not evaluate the Board's process for gathering information for, creating, or internally storing sensitive economic releases. We also did not assess controls to protect sensitive economic information within the Board prior to the distribution of the information to the news

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17. The OIG's analysis did not include testing for the April 16, 2014, "Industrial Production" release because the Board was unable to provide information on the news participants who accessed that particular release.

organizations during the embargo period. In addition, we did not review the Board's processes for posting information to its public website.

We conducted our fieldwork from February 2015 to October 2015 and performed live observations of the press lockup room on June 17, 2015, and March 2, 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Appendix B Management's Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

OFFICE OF BOARD MEMBERS

April 8, 2016

Ms. Melissa Heist  
Office of Inspector General  
Board of Governors of the Federal Reserve System  
Washington, D.C. 20551

Dear Ms. Heist:

Thank you for the opportunity to comment on your draft report, *The Board Should Strengthen Controls to Safeguard Embargoed Sensitive Economic Information Provided to News Organizations*. We have reviewed the report and provide our comments below. We appreciate the effort that the Office of Inspector General (OIG) has put into the report.

The draft report contains nine recommendations relating to the Board's public dissemination of sensitive economic information via news organizations. We are in general agreement with your recommendations, and as you note in your report, substantial improvements in our processes were planned before your office began its review and many were implemented during the review. Others are now in the process of being implemented.

Our responses to your recommendations are as follows:

**Recommendation 1: Analyze the sensitivity of the remaining embargoed information provided through the embargo application and document the decision as to whether the benefits outweigh the risks of unauthorized disclosure.**

None of the information within the scope of OIG review is currently released through the embargo application.<sup>1</sup> We will review and consider the sensitivity of the remaining information provided through the embargo application.

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<sup>1</sup> Two of the reports have been removed from the Office of Management and Budget's list of Principal Federal Economic Indicators and are no longer provided under embargo. All of the remaining releases are now provided to the media through secure lockups rather than the embargo application.

**Recommendation 2: Verify and document that each news participant has completed each step in the sign-in process before accessing the press lockup room.**

As observed by OIG staff on March 2, 2016, the process for checking in and accessing the Board's lockup room changed following the move to its current location. As the report notes, the new process allows a law enforcement officer stationed at the entrance to the lockup room to observe that each participant is approved for entry. We plan to adjust the sign-in paperwork to better document that sign-in procedures have been followed at each lock-up.

**Recommendation 3: Verify that all required documents have been received prior to granting news participants access to embargoed information through the press lockup room and the embargo application.**

We required all news organizations and news participants to sign new agreements prior to using the new lockup room in September 2015. To facilitate building access, news organizations are required at or before the start of each month to send the Public Affairs Office a list of reporters requiring access to lockups during that month. Public Affairs staff members check this list against the documents received. News organizations must submit a new master roster of potential lockup participants each June and participants must re-sign participant agreements at that time.

We are in the process of having all news organizations and users submit new paperwork for access to the embargo application. News organizations have an obligation to report when individual users change jobs or otherwise no longer require access. Since each organization has a limited number of accounts for the application, organizations have an incentive to report when a user no longer requires access in order for a replacement user to be validated for access. In addition, news organizations must re-submit their list of authorized users in June and December of each year and users must re-sign user agreements each June.

**Recommendation 4: Establish a records management process to facilitate the retrieval of documents required for news organizations and news participants to access embargoed information.**

Completed lockup and embargo application documents are stored in a central file and are easily retrievable, delineated by news organization. We plan to seek advice from the Board's Office of the Secretary regarding a retention schedule for documents related to "inactive" news organizations and participants, meaning they no longer require or are authorized to access embargoed information.

**Recommendation 5: Disable the embargo application access of all news participants who either no longer have a need for embargoed information or have not completed all required documents for access.**

As has been our practice, we immediately disable access for users as soon as we are informed that access is no longer required. Access is also removed if a user is

not listed among the news organization's authorized users in the organization's semiannual submissions. Going forward, when a user is deactivated, a note will be attached to the user's existing paperwork, and the paperwork will be moved to an "inactive" file.

**Recommendation 6: Update the Board's policies and procedures to require the Board to enforce the news organizations' regular submission of information and to complete the evaluations that are stipulated in the news organization agreements, as follows:**

- a. **Annually assess whether news organizations continue to meet the Board's definition of a news organization and advance the purpose of the embargo process.**
- b. **seminnually require the news organizations to revalidate their users of the embargo application so that the Board can evaluate whether news participants continue to need access to embargoed information.**
- c. **annually require the news organizations to submit reports so that the Board can evaluate whether the procedures, if followed, are sufficient to protect embargoed information provided through the embargo application.**

We will assess whether each news organization continues to meet the Board's definition of a news organization each June and will continue to require that news organizations revalidate their embargo application users each June and December. Each June, we will review news organizations' practices and procedures for handling embargoed information.

**Recommendation 7: Conduct and document an analysis to determine how the classification and handling requirements established in the Board's *Information Classification and Handling Standard* and the Federal Open Market Committee's *Program for Security of FOMC Information* apply to documents during the embargo period and update relevant policies, as necessary.**

We have relayed the OIG's concern to the Division of Information Technology and the FOMC Secretariat, and work is underway to update the relevant policies.

**Recommendation 8: Include wording at the top of each page of documents provided under embargo to convey, in plain language, their embargoed status and official release date and time.**

Release times now are clearly printed on the first page of each document within the scope of this audit, and embargoed documents are only distributed under secure conditions in the lockup room. The release time for documents distributed through the embargo application is clearly displayed in the application itself as well as in other places on the distributed documents. We will explore the feasibility of placing this information on each page of each document distributed through the embargo application.

**Recommendation 9: Revise the embargo policies, procedures, and agreements to ensure that they**

- a. reflect the current processes and controls, including addressing the gaps identified by the OIG.**
- b. include consistent requirements for news organizations and news participants who have access to sensitive economic information provided under embargo, regardless of the method by which the information is provided.**
- c. contain a requirement that the equipment used to access embargoed information from within the lockup room is reviewed regularly to ensure that it meets the Board's information security requirements.**
- d. include specific steps for Board personnel to take when news organizations violate embargo requirements.**
- e. formalize as a policy statement the purpose of providing information under embargo.**

We have revised our policies and procedures to address the matters identified by the OIG and to, except where necessary because of differences in process, harmonize requirements for access to embargoed information regardless of the method through which the information is provided. Additionally, as noted in the report, equipment used in the Board's lockup room is verified to meet the Board's requirements upon installation and sealed. Maintenance must be conducted in the presence of Board personnel, and seals are checked at the conclusion of each monthly maintenance window. We will document existing practices followed by Board personnel when news organizations violate embargo requirements. We will incorporate a formal statement of the purpose of providing information under embargo into our policies and procedures.

Thank you again for the opportunity to provide comments on this report.

Sincerely,



Michelle A. Smith  
Director  
Office of Board Members



## OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
CONSUMER FINANCIAL PROTECTION BUREAU

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