



Executive Summary, 2023-FMIC-B-005, April 17, 2023

Following Established Processes Helped FRB New York and the Board Reduce Risks Associated With Lending Facility Contracts

Findings

For the 10 contracts related to the emergency lending facilities established in response to the COVID-19 pandemic that were directly negotiated with 5 vendors, the Federal Reserve Bank of New York (FRB New York) generally followed established vendor selection processes, and the Board of Governors of the Federal Reserve System's Division of Reserve Bank Operations and Payment Systems (RBOPS) provided oversight. Following established vendor selection processes helped FRB New York reduce risks by fostering consistency and transparency in its vendor selection decisions and mitigating conflicts of interest arising from potential employee- and institutional-vendor relationships. In addition, for the 17 contracts with the 8 vendors that supported the operations of these lending facilities, FRB New York generally followed established vendor management processes by confirming that it received the expected services and that associated risks and conflicts of interest were appropriately managed throughout the duration of the contracts. RBOPS provided oversight of FRB New York's vendor management processes as well.

Although FRB New York generally followed established processes, it can clarify vendor selection processes for lending facility acquisitions. Specifically, FRB New York excludes lending facility acquisitions from its *Acquisition Policy*, and that policy does not include a rationale for the exclusion. An FRB New York official acknowledged that the policy is not clear about whether vendor selection processes are applicable to lending facility acquisitions. Also, FRB New York has not updated its policy to incorporate lessons learned related to maximizing the use of competitive contracts; rather, it is incorporating those lessons learned into facility-specific reference guides. Clarifying vendor selection processes for lending facility acquisitions and incorporating lessons learned into policy or guidance can help reduce risks associated with lending facility contracts, should future facilities be needed.

Recommendations

Our report does not contain any recommendations because FRB New York updated its *Acquisition Policy* to clarify that the policy applies to emergency lending facility acquisitions. In addition, FRB New York documented its lessons learned from the COVID-19 pandemic response in facility-specific reference guides. When our reports do not contain recommendations, providing an official response is optional. We received an official response from the Board conveying the Board's appreciation for our conclusions that RBOPS's oversight contributed to reducing risks associated with the lending facility contracts. FRB New York chose not to provide an official comment, but FRB New York management stated during a March 6, 2023, meeting that they concur with the content of the report.

Purpose

The objective of our evaluation was to assess the Federal Reserve System's vendor selection and management processes related to lending facilities operated by FRB New York. The scope of our evaluation included FRB New York's vendor selection and management processes from March 2020 through September 2021 and RBOPS's associated oversight activities. For vendor selection testing, we included the 10 directly negotiated contracts. For vendor management testing, we included the 17 contracts that supported the operations of the lending facilities.

Background

The COVID-19 pandemic disrupted economic activity in the United States and heightened the need for businesses and government institutions to obtain credit to sustain operations. Under section 13(3) of the Federal Reserve Act and with approval of the U.S. treasury secretary, the Board authorized 13 emergency lending programs to support state and local governments and businesses of all sizes. FRB New York used vendors to support 5 of the 6 lending facilities it operated; some of these vendors were selected through a noncompetitive procurement process.