



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Executive Summary, 2019-SR-C-001, January 28, 2019

The Bureau Can Improve Its Follow-Up Process for Matters Requiring Attention at Supervised Institutions

Findings

The Bureau of Consumer Financial Protection's (Bureau) Division of Supervision, Enforcement and Fair Lending (SEFL) can improve its follow-up process for Matters Requiring Attention (MRAs), corrective actions that result from examination findings that require the attention of a supervised institution's board of directors or principals. For example, we found that the Bureau's approach for measuring how timely it resolves MRAs is prone to misinterpretation and therefore appeared to overstate the agency's progress toward closing these actions. We also determined that some of the underlying data used to calculate the measurement were not reliable. Additionally, we observed inconsistent MRA follow-up documentation and workpaper retention practices in the following areas: (1) posting MRA documentation to the Bureau's system of record for examination activities in a timely manner, (2) documenting the request for and approval of extensions, and (3) documenting and communicating the closure status of MRAs.

During our review, SEFL took certain actions to improve its MRA follow-up process. In April 2017, SEFL issued guidance related to documenting and communicating the closure of MRAs through offsite supervisory events. In February 2018, SEFL released additional guidance outlining further enhancements to the MRA follow-up process, such as direction for staff to create an internal memorandum to describe the work performed and the conclusions resulting from offsite supervisory events. In May 2018, SEFL updated its system of record for examination activities to include a field that identifies when any corrective actions, including those associated with MRAs, have been closed. We did not review and assess the actions taken in 2018 because the timing of these changes did not allow for testing.

Recommendations

Our report contains recommendations designed to further enhance the MRA follow-up process. In its response to our draft report, the Bureau concurs with our recommendations and outlines actions it will take to address them. We will follow up on SEFL's actions to ensure that the recommendations are fully addressed.

Purpose

We conducted this evaluation to assess SEFL's effectiveness in monitoring corrective actions taken to address MRAs and ensuring that supervised institutions address MRAs in a timely manner.

Background

During the examination process, SEFL employees may identify corrective actions that a supervised institution needs to implement to address (1) violations of federal consumer financial laws or regulations, (2) compliance program deficiencies, or (3) control weaknesses. These corrective actions include MRAs, memorandums of understanding, board resolutions, and formal enforcement actions. Our evaluation focused on the follow-up process related to MRAs.

SEFL provides supervised entities with a time frame for completing and responding to the requirements of issued MRAs. After issuing an MRA, SEFL assesses a supervised entity's progress toward addressing the requirements of the MRA through limited-scope follow-up reviews or examinations, offsite follow-up reviews, or quarterly monitoring activities. Following its assessment of the supervised entity's response, SEFL may close the MRA or inform the supervised entity that additional validation testing is needed to determine whether the MRA can be closed.