Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Semiannual Report to Congress

October 1, 2022–March 31, 2023

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Message From the Inspector General

As we navigate the postpandemic landscape, we find ourselves in a changed and rapidly evolving world. While we continue to provide oversight of the pandemic response efforts of the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau, we are also focusing on several developing areas, including the recent issues involving midsize financial institutions, financial-sector innovations, climate risks, and the legal challenge to the CFPB's funding mechanism. To continue fulfilling our mission to provide independent oversight to the Board and the CFPB, it is essential that we remain flexible and agile.

We routinely identify and prioritize the CFPB's and the Board's major management challenges—the areas that, if not addressed, we believe are most likely to hamper the agencies' accomplishment of their strategic objectives. We recently published the CFPB's major management challenges and identified four areas of focus: ensuring an effective information security program; managing human capital to maintain a talented, diverse, inclusive, and engaged workforce; continuing to refine the supervision and enforcement strategy; and managing consumer complaints. The Board's major management challenges, which will be published in the second quarter of 2023, will address organizational governance and enterprise risk management, cybersecurity at supervised financial institutions and service providers, and information security, among other topics.

When the pandemic emerged 3 years ago, it rapidly reshaped our work, and we continue to protect the integrity of pandemic relief programs within our oversight responsibilities. We actively monitor the Board's pandemic-related lending programs, and I continue to serve on the Pandemic Response Accountability Committee, which coordinates inspector general community oversight of the federal government's COVID-19 pandemic response efforts.

Our Office of Investigations continues to investigate numerous cases of fraud related to the emergency lending programs established in response to the pandemic. In a recent case, for example, a man was sentenced to 8.5 years in federal prison and ordered to pay over $6 million in restitution for fraudulently obtaining more than $6.6 million in Paycheck Protection Program (PPP) and Economic Injury Disaster Loan funds and then laundering his illegal proceeds into financial instruments and real property. In another case, the chief executive officer of PPP lender MBE Capital Partners pleaded guilty to conspiring to commit wire fraud in connection with loan and lender applications. He fraudulently secured hundreds of millions of dollars in capital for PPP loans and collected over $71 million in lender fees.

Overall, in the past 6 months, our Office of Investigations closed 15 investigations and resolved 105 hotline complaints. Our work resulted in 4 referrals for criminal prosecution; 20 arrests; 24 indictments; 12 criminal informations; 24 convictions; and just over $53 million in criminal fines, restitution, special assessments, and forfeiture.

In this reporting period, we assessed processes for managing cybersecurity risks for third-party vendors supporting the Main Street Lending Program and Secondary Market Corporate Credit Facility and found that overall, Federal Reserve System officials quickly established vendor contracts that generally met cybersecurity best practices.

In other work this reporting period, we assessed the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals, which the Board develops as part of its oversight of financial institutions. We identified several ways for the Board to enhance its review and approval of supervisory proposals. In a separate evaluation, we assessed the effectiveness of the Board's model risk management processes for models the Board uses to monitor risks at community and regional banking organizations. We found that the Board can enhance model risk management by ensuring timely review and validation, developing a comprehensive model inventory, and developing a formal mechanism for tracking the findings and recommendations of internal groups that review and validate models.

We also evaluated the Board's practices related to roles and responsibilities for managing the data it uses to conduct research, analysis, and policymaking; supervise and regulate certain financial institutions and activities; oversee important aspects of the nation's payments system; and promote consumer protection, fair lending, and community development. We found that the Board can enhance enterprise practices for data management roles and responsibilities. In addition, we completed the annual audits of the Board's and the Federal Financial Institutions Examination Council's financial statements and the CFPB's fiscal year 2022 compliance with the Payment Integrity Information Act of 2019.

As we look to the future, we are closely attentive to several areas of interest. Of particular note are the recent failure of Silicon Valley Bank and the voluntary liquidation of Silvergate Bank. While the U.S. Department of the Treasury, the Board, and the Federal Deposit Insurance Corporation have taken steps intended to keep our banking system resilient, much remains to be determined about how these events occurred and how future bank failures can be prevented. On March 14, we initiated reviews of Silicon Valley Bank and Silvergate Bank that will assess both the Board's and the Federal Reserve Bank of San Francisco's supervision of the institutions and make recommendations, as appropriate.

Financial-sector innovations represent an additional area of attention. The Board recently announced that it plans to launch FedNow, the System's new real-time settlement system, in July, and the Board is also researching the potential benefits and risks of a central bank digital currency.

Another area of interest is the consideration of climate-related risks in the supervision of financial institutions. We are reviewing the Board's process for developing and implementing supervisory approaches for climate risks to financial institutions, including by benchmarking with other agencies and central banks; further information will be available in a forthcoming OIG Insights paper.

Finally, the ongoing legal challenge to the constitutionality of the CFPB's funding mechanism as well as legislative proposals to reform the CFPB may affect our future work, and we are monitoring such issues closely. Meanwhile, as our pandemic oversight work decreases, we expect to realign resources accordingly to bring our Board and CFPB work back to its historical balance, including by starting several new CFPB projects.

We understand that many of these issues are of critical importance to our stakeholders as well. In March, I testified before the House Financial Services Subcommittee on Oversight and Investigations on our oversight of the Board and the CFPB. Specific topics included our review of the Board's approach to climate risk supervision at financial institutions, the CFPB's budget, legal challenges to the CFPB's funding mechanism, and our role overseeing the CFPB. I look forward to further outreach and engagement with our congressional stakeholders on how we provide independent oversight of the Board and the CFPB.

While much is uncertain in these changing times, our mission remains the same: to ensure that the programs and operations of the agencies we oversee are operating efficiently and effectively and are free of fraud, waste, and abuse. Also unchanging is my profound appreciation for the extraordinary OIG staff, who unfailingly maintain the remarkable quality of their work even as we adapt to shifting priorities. Their work requires tremendous expertise and dedication, and I am deeply grateful for their efforts and for their steadfast commitment to our mission, vision, and values.

Sincerely,

Mark Bialek
Inspector General
April 28, 2023

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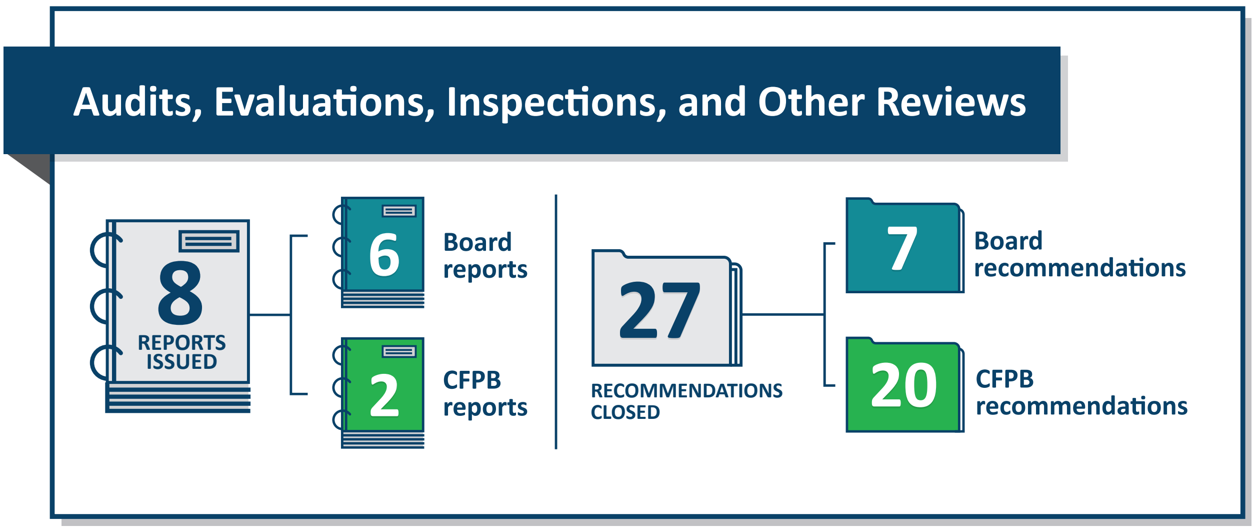
Highlights

We continued to promote the integrity, economy, efficiency, and effectiveness of the programs and operations of the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau. The following are highlights, in chronological order, of our work during this semiannual reporting period.



Cybersecurity Risk Management for Lending Facility Vendors

Federal Reserve System officials quickly established vendor contracts for the Board's lending facilities that generally met cybersecurity best practices; however, we identified ways to strengthen third-party cybersecurity risk management processes for future scenarios.

The Board's Governance Processes for Supervisory Proposals

We found several ways for the Board to enhance its review and approval of supervisory proposals.

Roles and Responsibilities for Data Management at the Board

The Board uses a decentralized data management model, and the chief data officer has not been formally granted authority over data management and governance.

Major Management Challenges for the CFPB

The major management challenges we identified for the CFPB involve information security, human capital, supervision and enforcement, and consumer complaints.

Many of our investigations during this semiannual reporting period concern fraud related to the Federal Reserve's pandemic response efforts, including the Paycheck Protection Program Liquidity Facility (PPPLF), which extended credit to eligible financial institutions and took Paycheck Protection Program (PPP) loans guaranteed by the U.S. Small Business Administration (SBA) as collateral, and the Main Street Lending Program (MSLP), which supported lending to small and medium-sized for-profit and nonprofit organizations in sound financial condition before the COVID-19 pandemic. In addition, our office also conducted investigations in support of our membership on the Pandemic Response Accountability Committee (PRAC).

Former First NBC Bank President Found Guilty of Dozens of Charges

For his role in a fraud scheme leading to the failure of the $5 billion First NBC Bank, former President and Chief Executive Officer (CEO) Ashton J. Ryan Jr. was found guilty of all 46 counts against him, including bank fraud, conspiracy to commit bank fraud, and making false entries in bank records.

CEO of MBE Capital Partners Pleaded Guilty to PPP Fraud

Rafael Martinez, CEO and primary owner of MBE Capital Partners, pleaded guilty to conspiracy to commit wire fraud in connection with an $823 million PPP loan and lender fraud scheme.

Sterling Bancorp Agreed to Plead Guilty to Securities Fraud

Sterling Bancorp, a Michigan-headquartered bank holding company, agreed to plead guilty to securities fraud for filing false securities statements relating to its initial public offering (IPO) and subsequent annual filings. The company will be required to serve probation through 2026, submit to enhanced reporting obligations, and pay more than $27.2 million in restitution to deceived shareholders.

Former Wells Fargo Executive Agreed to Plead Guilty to Obstruction

Carrie L. Tolstedt, the former head of Wells Fargo Bank's retail banking division, agreed to plead guilty to obstructing a government examination into the bank's widespread sales practices misconduct, for which Wells Fargo paid a $3 billion penalty in 2020. Tolstedt agreed to serve up to 16 months in prison, be banned from working in the banking industry, and pay a $17 million civil penalty.

Introduction

Established by Congress, we are the independent oversight authority for the Board and the CFPB. In fulfilling this responsibility, we conduct audits, evaluations, investigations, and other reviews related to Board and CFPB programs and operations.

In accordance with the Inspector General Act of 1978 (5 U.S.C. §§ 401–424), our office has the following responsibilities:

- conduct and supervise independent and objective audits, evaluations, investigations, and other reviews to promote economy, efficiency, and effectiveness in Board and CFPB programs and operations
- help prevent and detect fraud, waste, abuse, and mismanagement in Board and CFPB programs and operations
- review existing and proposed legislation and regulations to make recommendations about possible improvements to Board and CFPB programs and operations
- keep the Board of Governors, the CFPB director, and Congress fully and currently informed

Congress has also mandated additional responsibilities that influence our priorities, including the following:

- Section 15010 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; 15 U.S.C. § 9001 note) established PRAC within the Council of the Inspectors General on Integrity and Efficiency (CIGIE). PRAC is required to conduct and coordinate oversight of covered funds and the coronavirus response to detect and prevent fraud, waste, abuse, and mismanagement and identify major risks that cut across programs and agency boundaries. PRAC is also required to submit reports related to its oversight work to relevant federal agencies, the president, and appropriate congressional committees. The CIGIE chair named our inspector general (IG) as a member of PRAC, and as such, we participate in PRAC meetings, conduct PRAC oversight activities, and contribute to PRAC reporting responsibilities.
- The Federal Information Security Modernization Act of 2014 (FISMA; 44 U.S.C. § 3555) established a legislative mandate for ensuring the effectiveness of information security controls over resources that support federal operations and assets. In accordance with FISMA requirements, we perform annual independent reviews of the Board's and the CFPB's information security programs and practices, including testing the effectiveness of security controls and practices for selected information systems.

- Section 11B of the Federal Reserve Act (12 U.S.C. § 248(b)) mandates annual independent audits of the financial statements of each Federal Reserve Bank and of the Board. The Board performs the accounting function for the Federal Financial Institutions Examination Council (FFIEC), and we oversee the annual financial statement audits of the Board and of the FFIEC.[1] Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the U.S. Government Accountability Office performs the financial statement audit of the CFPB.

- The Payment Integrity Information Act of 2019 (PIIA; 31 U.S.C. §§ 3351–58) requires agency heads to periodically review and identify programs and activities that may be susceptible to significant improper payments. The CFPB has determined that its Consumer Financial Civil Penalty Fund is subject to the PIIA. The PIIA requires us to determine each fiscal year whether the agency complies with the act.

- The Government Charge Card Abuse Prevention Act of 2012 (5 U.S.C. § 5701 note and 41 U.S.C. § 1909(d)) requires us to conduct periodic risk assessments and audits of the Board's and the CFPB's purchase card, convenience check, and travel card programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments.

- Section 211(f) of the Dodd-Frank Act (12 U.S.C. § 5391(f)) requires that we review and report on the Board's supervision of any covered financial company that is placed into receivership. We are to evaluate the effectiveness of the Board's supervision, identify any acts or omissions by the Board that contributed to or could have prevented the company's receivership status, and recommend appropriate administrative or legislative action.

- Section 989E of the Dodd-Frank Act (5 U.S.C. app. 3 § 11 note) established the Council of Inspectors General on Financial Oversight (CIGFO), which is required to meet at least quarterly to share information and discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight.[2] Additionally, CIGFO must report annually about the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO can also convene a working group of its members to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council, which was created by the Dodd-Frank Act and is charged with identifying threats to the nation's financial stability, promoting market discipline, and responding to emerging risks to the stability of the nation's financial system.

1. The FFIEC is a formal interagency body empowered to (1) prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the CFPB and (2) make recommendations to promote uniformity in the supervision of financial institutions.

2. CIGFO comprises the IGs of the Board and the CFPB, the Commodity Futures Trading Commission, the U.S. Department of Housing and Urban Development, the U.S. Department of the Treasury, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, the U.S. Securities and Exchange Commission, and the Office of the Special Inspector General for the Troubled Asset Relief Program.

- Section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Act (12 U.S.C. § 1831o(k)), outlines certain review and reporting obligations for our office when a state member bank failure occurs. The nature of those review and reporting requirements depends on the size of the loss to the Deposit Insurance Fund (DIF).
- The Federal Reserve Act, as amended by the USA PATRIOT Act of 2001 (12 U.S.C. § 248(q)), grants the Board certain federal law enforcement authorities. We perform the external oversight function for the Board's law enforcement program.

Pandemic Response Oversight

The economic disruptions caused by the COVID-19 pandemic resulted in an abrupt shock to financial markets and affected many credit channels relied on by households, businesses, and state and local governments. In response, the Board took steps to support the flow of credit to U.S. households and businesses. Notably, the Board used its emergency lending authority under section 13(3) of the Federal Reserve Act to create lending programs, with the approval of the secretary of the U.S. Department of the Treasury, to ensure liquidity in financial markets and to provide lending support to various sectors of the economy. In addition, the CFPB has continued to play a vital role throughout the pandemic by enforcing federal consumer protection laws and protecting consumers from abuse.

We are closely coordinating with the U.S. Government Accountability Office; PRAC, which coordinates IG community oversight of the federal government's COVID-19 pandemic response efforts; the Special Inspector General for Pandemic Recovery; the SBA Office of Inspector General; the U.S. Department of Justice (DOJ); and other OIGs to ensure robust oversight of the Board's and the CFPB's pandemic response activities and to efficiently deploy resources where they are most needed.

Inspector General Bialek continues to serve on PRAC; he is an active member of the PRAC Financial Sector Oversight Subcommittee and serves as the vice chair of the PRAC Investigations Subcommittee.

Status Updates for Completed, Initiated, and Planned Work

In 2020, we initiated an ongoing pandemic response monitoring effort for risk assessment purposes and as part of our audit planning activities. We primarily focus on the Board's pandemic response lending programs, which helps to inform our selection of prospective audit and evaluation topics. This monitoring effort is generally focused on the following topics:

- governance and controls to ensure consistent execution of the Board's programs by the Reserve Banks designated to put them into action, as well as vendor activities to execute program objectives
- coordination activities among the Reserve Banks or the designated program manager to execute, monitor, and improve that execution over time
- data aggregation and validation, particularly before program-related information is shared with the public or congressional stakeholders
- whether pandemic response lending efforts served the intended communities

Although CFPB programs and operations are not directly funded by the CARES Act or tasked with CARES Act requirements, the agency plays a vital role in protecting consumers from pandemic-related consumer financial fraud and abuse. In this regard, we actively oversee the CFPB's supervisory activity and monitoring of consumer complaints.

The audits and evaluations we have planned or initiated based on these activities and their status are outlined below.

Evaluation of Third-Party Cybersecurity Risk Management Processes for Vendors Supporting the MSLP and the Secondary Market Corporate Credit Facility

We issued this report in November 2022; see the summary below.

Evaluation of the System's Vendor Selection and Management Processes Related to the Federal Reserve Bank of New York's Emergency Lending Programs

Many of the System's emergency lending programs use vendors to establish and operate the programs, and some use multiple vendors. The Federal Reserve Bank of New York (FRB New York) awarded some of these contracts noncompetitively because of the compressed time frames available to create the programs, and other contracts pose potential conflict-of-interest risks to the System. In addition, the reliance on vendors highlights the importance of FRB New York's monitoring of vendor performance. We are assessing the System's vendor selection and management processes related to FRB New York's emergency lending programs. This evaluation is in the reporting phase.

Evaluations of the System's Loan Purchase and Administration for Its MSLP

The Board established the MSLP to facilitate lending to small and medium-sized for-profit and nonprofit organizations. To do so, the Federal Reserve Bank of Boston (FRB Boston) purchased 1,830 loans worth $17.5 billion from banks and lenders, the majority of which were purchased in the last 2 months of the program. To handle this increased activity, FRB Boston implemented an expedited loan purchase process for certain lenders. FRB Boston is now in the process of administering the loans, including assessing overall credit risk and identifying substandard loans. To assist with managing the program, FRB Boston contracted with vendors for a variety of these purchase and administration functions, including purchase intake, credit administration, loan workout, and other services. We are conducting a two-phase assessment of the MSLP loan purchase and administration processes, including the design and operating effectiveness of internal controls. Our loan purchase evaluation is currently in the reporting phase, and we plan to begin reporting on the loan administration evaluation in the second quarter of 2023.

Evaluation of the PPPLF's Credit Extension and Fraud Deterrence Efforts

The Board established the PPPLF to extend credit to financial institutions that originate loans through the SBA's guaranteed PPP, taking the PPP loans as collateral. The PPPLF, managed by the Federal Reserve Bank of Minneapolis and operated out of the 12 Reserve Banks, distributed billions of dollars to eligible lenders. Nonbank financial institutions received more than half of those funds, and there has been a confirmed instance of fraud in which a lender earned more than $70 million in fees. We will assess the effectiveness of internal controls to (1) determine lender eligibility and extend credit and (2) detect, deter, and mitigate PPP lender fraud. We also plan to assess the extent to which the System coordinates with the SBA on PPP fraud detection, deterrence, and mitigation efforts. We plan to begin scoping in the second quarter of 2023.

Audit of the CFPB's Consumer Response Operations

The CFPB uses consumer complaints to help inform the agency's supervision, enforcement, and policymaking activities. With an increase in consumer complaints as a result of the COVID-19 pandemic, Consumer Response faces an operational risk with respect to the timeliness with which it can respond to consumer complaints. We plan to assess the CFPB's effectiveness and timeliness in responding to consumer complaints.

Pandemic-Related Investigations

Our Office of Investigations is dedicated to identifying and investigating potential fraud related to the lending facilities that are central to the Board's pandemic response. In conducting our work in this area, we have leveraged our relationships with various federal law enforcement organizations, U.S. attorney's offices, PRAC, and other OIGs. Since the start of the pandemic, our work has resulted in 143 full investigations; 78 arrests; 65 convictions; and over $69 million in criminal fines, restitution, and special assessments. During this reporting period, we opened 10 full investigations; made 7 arrests; had 17 convictions; and recovered over $28.7 million in criminal fines, restitution, and special assessments. Our recent investigative results and recoveries are described in the Investigations section of this report.

Audits, Evaluations, and Other Reviews

Audits assess aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. For example, we oversee audits of the Board's financial statements and conduct audits of (1) the efficiency and effectiveness of the Board's and the CFPB's processes and internal controls over their programs and operations; (2) the adequacy of controls and security measures governing these agencies' financial and management information systems and their safeguarding of assets and sensitive information; and (3) compliance with applicable laws and regulations related to the agencies' financial, administrative, and program operations. Our audits are performed in accordance with *Government Auditing Standards*, which is issued by the comptroller general of the United States.

Evaluations also assess aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. Evaluations are generally focused on the effectiveness of specific programs or functions; we also conduct our legislatively mandated reviews of failed financial institutions supervised by the Board as evaluations. Our evaluations are performed according to *Quality Standards for Inspection and Evaluation*, which is issued by CIGIE.

Other reviews may include risk assessments, data analytics or other testing, and program and operational reviews that may not be performed in accordance with audit or evaluation standards.

The information below summarizes our audits, evaluations, and other reviews completed during the reporting period.

Board of Governors of the Federal Reserve System

Observations on Cybersecurity Risk Management Processes for Vendors Supporting the Main Street Lending Program and the Secondary Market Corporate Credit Facility

2022-IT-B-015 **November 9, 2022**

The Board established the MSLP and the Secondary Market Corporate Credit Facility to help certain businesses, nonprofits, and employers through the COVID-19 pandemic. We assessed processes for managing cybersecurity risks for third-party vendors supporting the MSLP and the Secondary Market Corporate Credit Facility.

Overall, we found that System officials quickly established vendor contracts that generally met cybersecurity best practices. However, we identified ways to strengthen third-party cybersecurity risk management processes for future scenarios and found that Board and Reserve Bank information security program policy requirements for vendor risk management do not fully align.

Our report does not contain recommendations.

The Board Can Enhance the Effectiveness of Certain Aspects of Its Model Risk Management Processes for the SR/HC-SABR and BETR Models

2022-SR-B-016 December 7, 2022

The Board uses supervisory models to advance the risk-focused supervision of financial institutions. Because they inform the Board's supervision activities, these models must be sound and produce reasonable and reliable outputs. We assessed the effectiveness of the Board's model risk management processes for the Supervision and Regulation Statistical Assessment of Bank Risk (SR-SABR), Holding Company Statistical Assessment of Bank Risk (HC-SABR) (together, SR/HC-SABR), and Bank Exams Tailored to Risk (BETR) models, which the Board uses to monitor risks at community and regional banking organizations.

We found that the Board can enhance model risk management by ensuring timely review and validation of the SR/HC-SABR and BETR models, developing a comprehensive model inventory of top-tier supervisory models, and developing a formal mechanism for tracking the findings and recommendations of internal groups that review and validate models.

Our report contains recommendations designed to enhance the effectiveness of the Board's model risk management processes for the SR/HC-SABR and BETR models. The Board concurred with our recommendations.

The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals

2022-SR-B-017 December 7, 2022

As part of its oversight of financial institutions, the Board develops supervisory proposals, which include guidance addressing significant supervision matters as well as stress tests to evaluate the resilience of large banks. We assessed the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals.

We found several ways for the Board to enhance its review and approval of supervisory proposals. For example, it can improve how it informs and consults Board members and can clarify when and how it solicits public feedback on these proposals. It can also clarify how some of the Board's operations should be executed in the absence of a vice chair for supervision, including delegated actions related to stress testing proposals.

Our report contains recommendations designed to enhance the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals. The Board concurred with our recommendations.

The Board Can Enhance Enterprise Practices for Data Management Roles and Responsibilities

2023-MO-B-001 — January 18, 2023

The Board relies extensively on data to conduct research, analysis, and policymaking; supervise and regulate certain financial institutions and activities; oversee important aspects of the nation's payments system; and promote consumer protection, fair lending, and community development. We evaluated the agency's practices related to roles and responsibilities for managing data.

The Board uses a decentralized data management model, resulting in varying definitions, training methods, and approaches to data inventory across agency divisions. Further, the chief data officer has not been formally granted authority over data management and governance, which may lead to challenges implementing action plans outlined in the Board's data strategy.

Our report contains recommendations designed to enhance enterprise practices related to data management roles and responsibilities, training, and data inventory management. Our report also recommends that authority for data management and governance be delegated to the chief data officer. The Board concurred with our recommendations.

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2022 and 2021, and Independent Auditors' Report

2023-FMIC-B-002 — February 22, 2023

The Board performs the accounting function for the FFIEC, and we contracted with an independent public accounting firm to audit the financial statements of the FFIEC. The contract requires the audits to be performed in accordance with auditing standards generally accepted in the United States and in accordance with the auditing standards applicable to financial audits in *Government Auditing Standards*, issued by the comptroller general of the United States. We reviewed and monitored the work of the independent public accounting firm to ensure compliance with applicable standards and the contract.

In the auditors' opinion, the financial statements presented fairly, in all material respects, the financial position of the FFIEC as of December 31, 2022 and 2021, and the results of operations and cash flows for those years in accordance with U.S. generally accepted accounting principles. The auditors' report on internal control over financial reporting and on compliance and other matters disclosed no instances of noncompliance or other matters.

Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2022 and 2021, and Independent Auditors' Report

2023-FMIC-B-003 March 6, 2023

We contracted with an independent public accounting firm to audit the financial statements of the Board and to audit the Board's internal control over financial reporting. The contract requires the audits of the financial statements to be performed in accordance with the auditing standards generally accepted in the United States; the standards applicable to financial audits in *Government Auditing Standards*, issued by the comptroller general of the United States; and the auditing standards of the Public Company Accounting Oversight Board. The contract also requires the audit of internal control over financial reporting to be performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants and with the auditing standards of the Public Company Accounting Oversight Board. We reviewed and monitored the work of the independent public accounting firm to ensure compliance with applicable standards and the contract.

In the auditors' opinion, the financial statements presented fairly, in all material respects, the financial position of the Board as of December 31, 2022 and 2021, and the results of its operations and its cash flows for those years in conformity with U.S. generally accepted accounting principles. Also, in the auditors' opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The auditors' report on compliance and other matters disclosed no instances of noncompliance or other matters.

Consumer Financial Protection Bureau

Independent Accountants' Report on the CFPB's Fiscal Year 2022 Compliance With the Payment Integrity Information Act of 2019

2023-FMIC-C-004 March 27, 2023

The PIIA requires agency heads to periodically review and identify all programs and activities that may be susceptible to significant improper payments. In addition, each fiscal year the IG of each agency must determine and report on whether the agency complies with the act. We contracted with an independent accounting firm to audit the CFPB's compliance with the PIIA for the Civil Penalty Fund for fiscal year 2022. The audit was performed in accordance with *Government Auditing Standards*, issued by the comptroller general of the United States. We reviewed and monitored the work of the firm to ensure compliance with the contract and *Government Auditing Standards*.

The firm determined that the CFPB complied with the two applicable requirements of the PIIA for fiscal year 2022 for the Civil Penalty Fund. Specifically, the CFPB published and posted on its website an annual financial statement for the most recent fiscal year, and it conducted a program-specific risk assessment. The other four PIIA requirements are not applicable to the Civil Penalty Fund because the CFPB has determined that the fund is not susceptible to significant improper payments. The firm made no recommendations in its report.

2023 Major Management Challenges for the CFPB

March 29, 2023

Although not required by statute, we report on the major management challenges facing the CFPB. These challenges identify the areas that, if not addressed, are most likely to hamper the agency's accomplishment of its strategic objectives.

In March 2023, we identified four challenges for the CFPB:

- Ensuring an Effective Information Security Program—While the CFPB continues to maintain an effective information security program and is taking multiple steps to strengthen and mature its program, the agency faces challenges in three key areas: (1) full implementation of a zero trust architecture, (2) optimal integration of enterprise risk management and cybersecurity risk management, and (3) enhanced information technology (IT) supply chain risk management practices.
- Managing Human Capital to Maintain a Talented, Diverse, Inclusive, and Engaged Workforce—To maintain a talented, diverse, inclusive, and engaged workforce, the CFPB's human capital program should continue focusing on supporting changes to the agency's workplace flexibility, addressing

workforce planning, advancing diversity and inclusion initiatives, and implementing a new compensation system.

- Continuing to Refine the Supervision and Enforcement Strategy—An important objective of the Dodd-Frank Act is to ensure that federal consumer financial laws are enforced consistently for both depository and nondepository institutions, and the CFPB continues to refine its supervision and enforcement strategy in light of this objective, including determining whether to use the agency's supervision versus enforcement tools.
- Managing Consumer Complaints—Consumer complaints are increasing, and as the effects of the pandemic persist, consumers could continue to experience problems such as incorrect credit report information, difficulty paying their mortgages, or medical bill collection. Consumers are also facing new challenges associated with new financial technologies; for example, complaints about crypto-assets continued to increase in 2022. The Office of Consumer Response faces an operational risk with respect to the timeliness with which it can respond to these complaints.

Failed State Member Bank Reviews

Material Loss Reviews

Section 38(k) of the Federal Deposit Insurance Act, as amended, requires that we complete a review of the agency's supervision of a failed institution and issue a report within 6 months of notification from the Federal Deposit Insurance Corporation (FDIC) OIG that the projected loss to the DIF is material. Section 38(k) defines a material loss to the DIF as an estimated loss in excess of $50 million.

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

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

In March 2023, the California Department of Financial Protection and Innovation closed Silicon Valley Bank, a state member bank located in Santa Clara, California, and supervised by the Federal Reserve Bank of San Francisco. The Department of Financial Protection and Innovation appointed the FDIC as receiver. As of December 31, 2022, Silicon Valley Bank had total assets of approximately $209 billion. On March 14, 2023, we initiated an engagement addressing the supervision of Silicon Valley Bank. In a March 26, 2023, press release, the FDIC estimated the cost of the failure to the DIF to be approximately $20 billion, which exceeds the statutory threshold requiring us to conduct a material loss review. Accordingly, our engagement will become a material loss review when we receive notice of the estimated loss from the FDIC OIG.

Nonmaterial Loss Reviews

The Federal Deposit Insurance Act, as amended, requires that we semiannually report certain information on financial institutions that incur nonmaterial losses to the DIF and that fail during the 6-month period.

When bank failures result in nonmaterial losses to the DIF, the IG must determine (1) the grounds identified by the federal banking agency or the state bank supervisor for appointing the FDIC as receiver and (2) whether the losses to the DIF present unusual circumstances that would warrant in-depth reviews.

Generally, the in-depth review process is the same as that for material loss reviews, but in-depth reviews are not subject to the 6-month reporting deadline.

The IG must semiannually report the completion dates for each such review. If an in-depth review is not warranted, the IG is required to explain this determination. In general, we consider a loss to the DIF to present unusual circumstances if the conditions associated with the bank's deterioration, ultimate closure, and supervision were not addressed in any of our prior bank failure reports, or if there was potential fraud.

No nonmaterial state member bank failures occurred during the reporting period.

Investigations

Our Office of Investigations investigates criminal, civil, and administrative wrongdoing by Board and CFPB employees as well as alleged misconduct or criminal activity that affects the Board's or the CFPB's ability to effectively supervise and regulate the financial community. We operate under statutory law enforcement authority granted by the U.S. attorney general, which vests our special agents with the authority to carry firearms, to seek and execute search and arrest warrants, and to make arrests without a warrant in certain circumstances. Our investigations are conducted in compliance with *Quality Standards for Investigations*, issued by CIGIE, and *Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority*.

During this period, the Office of Investigations met with officials at both the Board and the CFPB to discuss investigative operations and the investigative process. The office also met with counterparts at other financial regulatory agency OIGs to discuss matters of mutual interest, joint investigative operations, joint training opportunities, and hotline operations.

Board of Governors of the Federal Reserve System

The Board is responsible for consolidated supervision of bank holding companies, including financial holding companies formed under the Gramm-Leach-Bliley Act. The Board also supervises state-chartered banks that are members of the System, known as *state member banks*. Under delegated authority from the Board, the Reserve Banks supervise bank holding companies and state member banks, and the Board's Division of Supervision and Regulation oversees the Reserve Banks' supervisory activities.

Our investigations concerning bank holding companies and state member banks typically involve allegations that senior officials falsified financial records, lied to or misled examiners, or obstructed examinations in a manner that may have hindered the Board's ability to carry out its supervisory operations. Such activity may result in criminal violations, including false statements or obstruction of bank examinations.

Many of our investigations during this semiannual reporting period concern fraud related to the Federal Reserve's pandemic response efforts, including the MSLP, which supported lending to small and medium-sized for-profit and nonprofit organizations in sound financial condition before the COVID-19 pandemic, and the PPPLF, which extended credit to eligible financial institutions and took PPP loans guaranteed by the SBA as collateral. In addition, our office also conducted investigations in support of our membership on PRAC. Our office is also part of the DOJ's COVID-19 Fraud Enforcement Task Force.

The following are examples from this reporting period of investigations into matters affecting the Board's ability to carry out its supervisory responsibilities.

Former Bank President Found Guilty of Fraud Resulting in Failure of $5 Billion First NBC Bank in Louisiana

For his role in a fraud scheme leading to the failure of the $5 billion First NBC Bank, former President and CEO Ashton J. Ryan Jr. was found guilty of all 46 counts against him, including bank fraud, conspiracy to commit bank fraud, and making false entries in bank records. Each count carries a potential 30-year prison sentence and a fine up to $1 million or the greater of twice the gain to a defendant or twice the loss to any victim. Based in New Orleans, the bank was a subsidiary of First NBC Bank Holding Company, a Board-supervised bank holding company.

In the long-running scheme, Ryan and several other executives conspired with borrowers to defraud the bank. The executives extended loans to the borrowers, who were unable to repay the loans, then extended new loans to the borrowers to cover the existing loans. Ryan and the executives enriched themselves through fees earned on the loans while concealing their actions—and the true financial condition of the bank—from the board of directors and outside auditors and examiners. By the time the bank collapsed, these bogus loans totaled hundreds of millions of dollars. The bank's failure cost the FDIC's DIF just under $1 billion.

One of Ryan's coconspirators, borrower Frank J. Adolph, recently pleaded guilty to conspiracy to defraud First NBC Bank. He faces up to 30 years in prison and a fine of up to $1 million or the greater of twice the gain to Adolph or twice the loss to any victim. Former Executive Vice President Robert B. Calloway, former Chief Credit Officer William J. Burnell, and former General Counsel Gregory St. Angelo all pleaded guilty to conspiracy to commit bank fraud in previous reporting periods. In addition, several other business owners and borrowers have previously pleaded guilty to conspiracy to commit bank fraud: Arvind "Mike" Vira, Warren G. Treme, Gary G. Gibbs, and Kenneth Charity. Each faces prison terms ranging from 5 to 30 years and fines up to $1 million or the greater of twice their gains or twice the losses to the victims.

We conducted this investigation with the Federal Bureau of Investigation (FBI) and the FDIC OIG. The U.S. Attorney's Office for the Eastern District of Louisiana is prosecuting.

CEO of PPP Lender MBE Capital Partners Pleaded Guilty in New York to $823 Million PPP Fraud

Rafael Martinez, CEO and primary owner of MBE Capital Partners, pleaded guilty to conspiracy to commit wire fraud in connection with an $823 million PPP loan and lender fraud scheme. He faces up to 5 years in prison and has agreed to pay over $71 million in restitution and forfeit over $44 million, including more than $15 million previously seized by law enforcement, properties in New Jersey and the Dominican Republic, and five luxury vehicles.

Martinez used false representations and documents to fraudulently obtain SBA approval for his company, MBE Capital Partners, to be a nonbank PPP lender. After MBE was approved, Martinez issued $823 million in PPP loans to about 36,600 businesses. Those loans earned Martinez over $71 million in lender fees. In addition, Martinez schemed to obtain a PPP loan of over $283,000 for MBE through false statements about employees and wages using the forged signature of MBE's tax preparer. Martinez spent the proceeds from his criminal conduct on, among other things, a $10 million villa in the Dominican Republic; a $3.5 million mansion in New Jersey; a chartered jet service; and several luxury vehicles, including a Bentley, a BMW, a Ferrari, a Mercedes-Benz, and a Porsche.

We conducted this investigation with the Internal Revenue Service (IRS) Criminal Investigation (CI) and the SBA OIG. The U.S. Attorney's Office for the Southern District of New York is prosecuting.

Sterling Bancorp Agreed to Plead Guilty to $69 Million Securities Fraud

Sterling Bancorp, a Michigan-headquartered bank holding company, agreed to plead guilty to securities fraud for filing false securities statements relating to its IPO and subsequent annual filings. The company will be required to serve probation through 2026, submit to enhanced reporting obligations, and pay more than $27.2 million in restitution to deceived shareholders. The DOJ determined that a higher payment would threaten the continued viability of Sterling Bancorp and expose its shareholders to further risk.

In the leadup to its IPO, Sterling Bancorp and its subsidiary, Sterling Bank and Trust F.S.B., originated fraudulent residential mortgages. The loans, worth at least $5 billion, were offered without requesting typical documentation, such as applicants' tax returns or payroll records. Sterling Bancorp's founder and members of its senior management encouraged loan officers to falsify or conceal information from the underwriting department that would have disqualified borrowers. While artificially inflating its revenue through these loans, Sterling Bancorp lied about the loans' soundness in its IPO and subsequent public filings, defrauding investors. As a result of this fraud, Sterling Bancorp's noninsider victim-shareholders lost nearly $70 million.

We are conducting this investigation with the FBI, the FDIC OIG, and the U.S. Postal Inspection Service (USPIS). The DOJ is prosecuting.

CEO of California Company Sentenced to Prison for $21 Million Cryptocurrency Fraud

Michael Alan Stollery, CEO and founder of Titanium Blockchain Infrastructure Services Inc. (TBIS), was sentenced to 4 years and 3 months in prison for his role in a cryptocurrency fraud scheme involving TBIS's initial coin offering (ICO) that raised approximately $21 million from investors in the United States and overseas.

Stollery touted TBIS, a purported cryptocurrency investment platform, as a cryptocurrency investment opportunity, luring investors to purchase BARs, the cryptocurrency token or coin offered by TBIS's ICO, through a series of false and misleading statements. Although he was required to do so, Stollery did not register the ICO with the U.S. Securities and Exchange Commission, nor did he have a valid exemption from the commission's registration requirements. To entice investors, Stollery falsified aspects of TBIS's white papers, which purportedly offered investors and prospective investors an explanation of the cryptocurrency investment offering, including the purpose and technology behind the offering, how the offering was different from other cryptocurrency opportunities, and the prospects for the offering's profitability. Stollery also planted fake client testimonials on TBIS's website and falsely claimed that he had business relationships with the Federal Reserve and dozens of prominent companies to create the false appearance of legitimacy. Stollery further admitted that he did not use the invested money as promised but instead commingled the ICO investors' funds with his personal funds, using at least a portion of the offering proceeds for expenses unrelated to TBIS, such as credit card debt and bills related to his Hawaii condominium.

We conducted this investigation with the FBI. The DOJ prosecuted.

Former Wells Fargo Executive Agreed to Plead Guilty to Obstructing Bank Examination of Unauthorized Customer Accounts

Carrie L. Tolstedt, the former head of Wells Fargo Bank's retail banking division, agreed to plead guilty to obstructing a government examination of the bank's widespread sales practices misconduct, which included opening millions of unauthorized customer accounts and other products. Tolstedt also agreed to serve up to 16 months in prison, be banned from working in the banking industry, and pay a $17 million civil penalty.

Tolstedt was Wells Fargo's senior executive vice president of community banking and was head of Community Bank, which operated Well Fargo's consumer and small business retail banking business. Excessive sales goals led Community Bank employees to open millions of accounts and other financial products that were unauthorized or fraudulent. In the process, Wells Fargo collected millions of dollars in fees and interest, harmed customers' credit ratings, and unlawfully misused customers' sensitive personal information. Tolstedt obstructed the government's examination by failing to disclose information about the number of employees engaged in misconduct and the fact that Community Bank proactively investigated only a small percentage of employees who potentially engaged in misconduct. In 2020, Wells Fargo paid a $3 billion penalty in connection with these fraudulent sales practices.

We are conducting this investigation with the FBI, the FDIC OIG, the Federal Housing Finance Agency (FHFA) OIG, and the USPIS. The Office of the Comptroller of the Currency and the U.S. Securities and Exchange Commission provided substantial assistance. The U.S. Attorney's Offices for the Central District of California and the Western District of North Carolina are prosecuting.

California Resident Sentenced to Prison for $6.6 Million PPP and EIDL Fraud

Muhammad Noor Ul Ain Atta was sentenced to 8.5 years in prison for fraudulently obtaining and illegally laundering more than $6.6 million in PPP and Economic Injury Disaster Loan (EIDL) funds. He was also ordered to pay over $6.6 million in restitution—the full amount he received.

Atta submitted 11 fraudulent PPP loan applications for seven of his shell companies. The fraudulent PPP loan applications misrepresented the number of employees and the average monthly payroll expenses of his companies and falsely certified that he would use the loan proceeds for permissible business purposes. Atta also submitted false tax and payroll documentation in support of his applications. Atta then laundered loan proceeds and deposited them in bank accounts in the United States and Pakistan. He also invested in financial instruments and purchased land in Pakistan.

We conducted this investigation with the IRS CI, the SBA OIG, and the U.S. Treasury Inspector General for Tax Administration (TIGTA). The U.S. Attorney's Office for the Central District of California and the DOJ Fraud Section prosecuted.

California Residents Sentenced to Prison for $3 Million PPP and EIDL Fraud

Manuel Asadurian was sentenced to 51 months in prison for wire fraud affecting a financial institution in a scheme to obtain more than $1 million in PPP and EIDL funds. He was also ordered to pay over $1 million in restitution. His accomplice, Jeffrey Scott Hedges, was sentenced to 7 years in prison for conspiracy to commit wire fraud affecting a financial institution and one count of aggravated identity theft after attempting to obtain over $5 million in PPP and EIDL funds. Hedges was also ordered to pay over $2 million in restitution, the total funding he received.

Asadurian submitted 12 fraudulent PPP and EIDL applications on behalf of businesses he controlled, including LTL Enterprises LLC, Redline Performance LLC, and Diamond A Motorsports. Hedges submitted 18 fraudulent PPP and EIDL applications on behalf of companies he controlled, including West Coast

Chassis, WCC Pro Touring, Von Schoff Apparel, and Hedges Corvette. The applications included false employee numbers, payroll expenses, tax documents, bank records, and certifications that the loans would be used for permissible business purposes. Once the PPP and EIDL applications were approved, they were deposited in bank accounts Asadurian and Hedges controlled. Asadurian and Hedges then used the fraudulently obtained loans for their personal benefit, including making mortgage payments on a personal residence, paying personal expenses, and purchasing luxury vehicles.

We conducted this investigation with the FBI, the FDIC OIG, the IRS CI, TIGTA, and the SBA. The U.S. Attorney's Office for the Central District of California prosecuted.

New Jersey Business Owner Sentenced to Prison for $1.8 Million PPP Fraud

Rocco A. Malanga was sentenced to 36 months in prison for bank fraud and money laundering to fraudulently obtain nearly $1.8 million in federal PPP loans. He was also sentenced to 3 years of supervised released and ordered to pay $1.8 million in restitution and $1.8 million in forfeiture.

While living in New Jersey, Malanga fraudulently submitted at least three PPP loan applications to three lenders on behalf of three business entities he owned in New Jersey and Florida. In the applications, he fabricated the number of individuals employed by each business entity as well as average monthly payrolls. Malanga then diverted some of the proceeds from the loans to fund a business that did not receive PPP loan funds.

We conducted this investigation with the FDIC OIG, the IRS CI, the Social Security Administration OIG, and the USPIS. The U.S. Attorney's Office for the District of New Jersey and the DOJ Criminal Division prosecuted.

New Jersey Resident Pleaded Guilty to $850,000 PPP Loan Fraud

Butherde Darius pleaded guilty to money laundering and conspiracy to commit bank fraud for his role in fraudulently obtaining over $850,000 in PPP loans. The count of conspiracy to commit bank fraud carries a maximum penalty of 30 years in prison and a $1 million fine. The count of money laundering carries a maximum penalty of 10 years in prison and a maximum fine of $250,000.

Darius conspired with at least one other individual to submit a fraudulent PPP loan application to a lender and the SBA on behalf of his purported business, Fabulous Appetizers LLC. According to IRS records, many of the purported tax documents Darius submitted were never filed with the IRS. Darius also fabricated the existence of employees and the revenue of his business. Darius spent the loan proceeds on personal expenses.

We conducted this investigation with the FDIC OIG, the FHFA OIG, Homeland Security Investigations, the IRS CI, the Social Security Administration OIG, and the USPIS. The U.S. Attorney's Office for the District of New Jersey is prosecuting.

Former Louisiana Assistant District Attorney and Two Associates Indicted on Additional Charges for Defrauding First NBC Bank

A grand jury returned a superseding indictment involving additional charges against Glenn E. Diaz, former St. Bernard Parish assistant district attorney, and two associates, Peter J. Jenevein and Mark S. Grelle. They have been charged with dozens of counts of bank fraud, conspiracy to commit bank fraud, and money laundering related to defrauding First NBC Bank, the New Orleans–based bank that failed in April 2017. The bank was a subsidiary of First NBC Bank Holding Company, a Board-supervised bank holding company. Each of the charges against the defendants carries prison terms of up to 20–30 years and fines up to $500,000–$1,000,000 or twice the gross gain to the defendants or twice the gross loss to victims. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

According to the indictment, Diaz, Jenevein, and Grelle conspired to defraud First NBC Bank through a series of false invoices for work purportedly done at a Florida warehouse owned by Diaz. A customer of First NBC Bank, Diaz had been overdrawing his checking account for purported business expenses but was instead depositing these overdrafts into his personal account at another bank. After First NBC Bank officers began requiring Diaz to prove that the funds were used for business expenses, Diaz had Jenevein provide invoices for work performed by Grelle's company, Grelle Underground Services LLC. The defendants also sent fraudulent documents to First NBC Bank to support the disbursements of money from the bank that purportedly reimbursed Diaz for additional fraudulent business costs. Bank officers approved the overdrafts based on these invoices and supporting materials. However, after Diaz wrote the check to Grelle's company, Grelle would then write a check back to Diaz. Diaz would deposit the money into his personal account and use it for personal and business expenditures unrelated to the Florida warehouse project. In total, Diaz, Jenevein, and Grelle executed 17 round-trip transactions. The defendants' fraud resulted in a loss to First NBC Bank of over $500,000.

We are conducting this investigation with the FBI and the FDIC OIG. The U.S. Attorney's Office for the Eastern District of Louisiana is prosecuting.

Former North Dakota Bank President and Codefendants Sentenced for Bank Fraud

For his role in orchestrating loan fraud schemes while employed at two North Dakota financial institutions, Brady Torgerson was sentenced to 24 months in federal prison and 3 years of supervised release after pleading guilty to two counts of bank fraud. He was also ordered to pay $485,500 in restitution and a $200 special assessment. Brent Torgerson, Brady's father, was sentenced to time served (1 day), 1 year of supervised release, a $5,000 fine, and a ban from participating in banking for misapplication of bank funds in his role as vice president, branch manager, and loan officer at Union Bank; Kelly Huffman to time served (1 day), 1 year of supervised release, and a $5,000 fine for misapplication of bank funds in his role as an employee at First Security Bank–West and Union Bank; and Tyler Hofland to time served (1 day), 1 year of supervised release, and $98,163 in restitution for aiding and abetting bank fraud as a customer at First Security Bank–West.

As president of First Security Bank–West, Brady Torgerson funded loans without obtaining necessary financial information, security interest documents, or promissory notes. He also engaged in deceptive banking transactions by entering false information into the bank's computer system, increasing loans so that they exceeded the original loan amounts, and extending loan maturity dates to conceal his activities. Before that, while working as a loan officer at Union Bank, Brady Torgerson created fraudulent loan obligations that amounted to more than $450,000 in the names of three individuals who neither knew about the loans nor received the loan funds.

We conducted this investigation with the FDIC OIG and the FHFA OIG. The U.S. Attorney's Office for the District of North Dakota prosecuted.

Nevada Resident Pleaded Guilty to PPP Fraud While on Federal Probation

Mikaela Marie Cuevas pleaded guilty to one count of wire fraud for filing fraudulent applications seeking thousands of dollars in loans guaranteed by the SBA under the CARES Act. She faces up to 20 years in prison as well as monetary penalties.

According to court documents, Cuevas—while on probation for assaulting a federal law enforcement officer—submitted at least two fraudulent loan applications and received thousands of dollars of PPP funding she was not eligible to receive. She submitted the loan applications using a fake management consulting business. Shortly after receiving the PPP funds, she fraudulently filed loan forgiveness applications. In total, Cuevas caused a loss of about $47,000.

We conducted this investigation with the FBI, the IRS CI, the Las Vegas Metropolitan Police Department, and the SBA OIG. The U.S. Attorney's Office for the District of Nevada is prosecuting.

Oklahoma Resident Pleaded Guilty to PPP Fraud

Malcolm Andre Jones pleaded guilty to wire fraud in a scheme to defraud the SBA of PPP funds. He faces up to 30 years in prison and $1 million in fines.

Jones knowingly submitted a fraudulent PPP loan application to an SBA-approved lender. In the application, Jones falsely claimed that he operated a landscaping business and that all loan proceeds would be used for business-related purposes. Instead, he used the $20,665 in loan proceeds for nonbusiness expenses, including paying bills and buying furniture and an automobile. Jones further fraudulently submitted a forgiveness application for the loan, which was approved.

We conducted this investigation with the SBA OIG. The U.S. Attorney's Office for the Northern District of Oklahoma is prosecuting.

Oklahoma Resident Indicted for PPP Fraud

Legreasha Junice Alexander was indicted on four counts of wire fraud for submitting two fraudulent PPP loan applications and two PPP loan forgiveness applications to an SBA-approved lender in California. In the applications, Alexander falsely claimed that she operated a mobile food service business and made false statements about her adjusted gross income. The penalties for wire fraud are up to 30 years in prison and up to $1 million in fines. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

We are conducting this investigation with TIGTA. The U.S. Attorney's Office for the Northern District of Oklahoma is prosecuting.

Oklahoma Resident Indicted for PPP Fraud

Edson Vladimir Bellefleur was indicted on four counts of wire fraud for submitting two fraudulent PPP loan applications and two PPP loan forgiveness applications to an SBA-approved lender in California. In the applications, Bellefleur falsely claimed that he operated a mobile food service business and made false statements about his adjusted gross income. The penalties for wire fraud are up to 30 years in prison and up to $1 million in fines. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

We are conducting this investigation with TIGTA. The U.S. Attorney's Office for the Northern District of Oklahoma is prosecuting.

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the CFPB to implement and enforce federal consumer financial law. The CFPB supervises large banks, thrifts, and credit unions with total assets of more than $10 billion and certain nonbank entities, including mortgage brokers, loan modification providers, payday lenders, consumer reporting agencies, debt collectors, and private education lenders. Additionally, with certain exceptions, the CFPB's enforcement jurisdiction generally extends to individuals or entities that are engaging or have engaged in conduct that violates federal consumer financial law.

Our investigations concerning the CFPB's responsibilities typically involve allegations that company directors or officers provided falsified business data and financial records to the CFPB, lied to or misled examiners, or obstructed examinations in a manner that may have affected the CFPB's ability to carry out its supervisory responsibilities. Such activity may result in criminal violations, such as false statements or obstruction of examinations.

No publicly reportable developments in our CFPB-related investigations occurred during this reporting period.

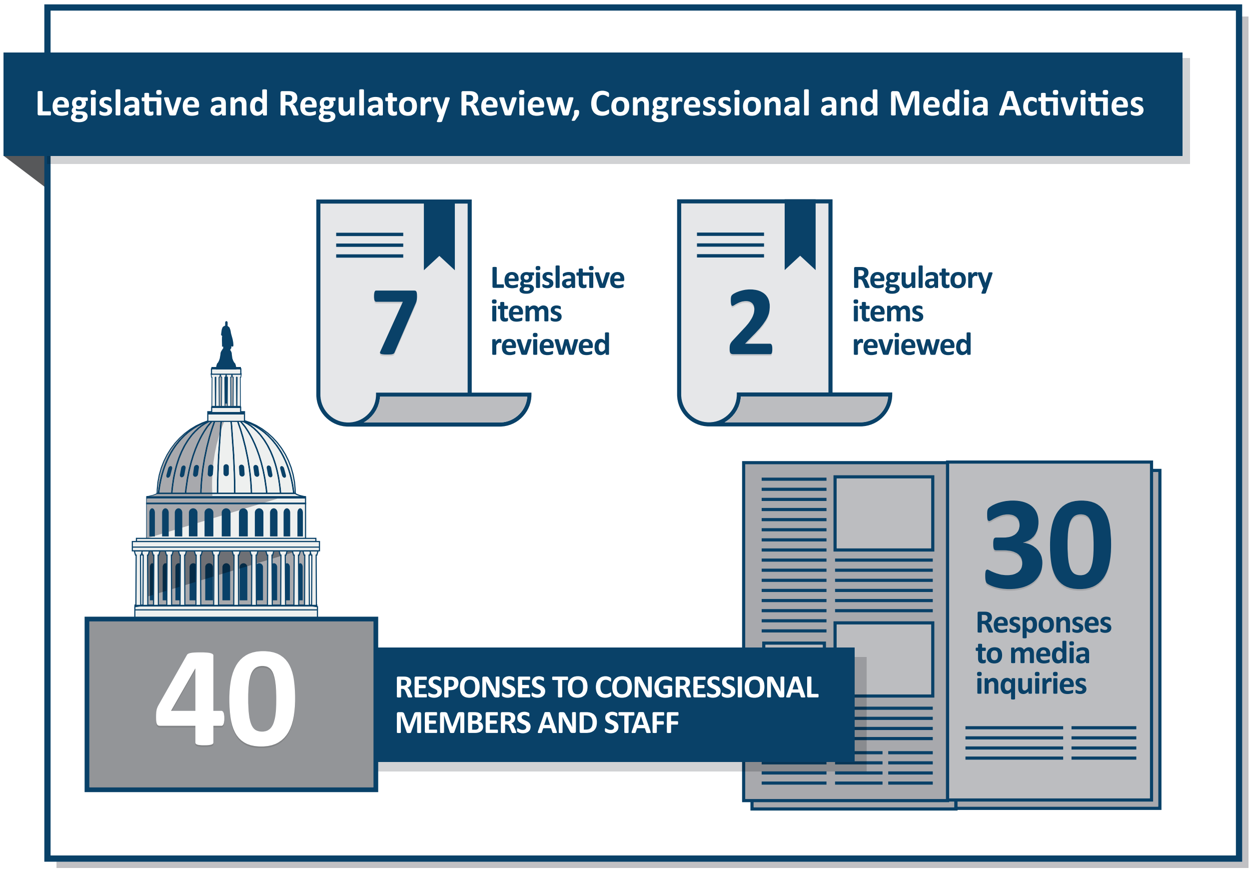
Hotline

The OIG Hotline helps people report fraud, waste, abuse, and mismanagement related to the programs or operations of the Board and the CFPB. Hotline staff can be reached by phone, web form, fax, or mail. We review all incoming hotline communications, research and analyze the issues raised, and determine how best to address the complaints.

During this reporting period, the OIG Hotline received 94 complaints. Complaints within our purview are evaluated and, when appropriate, referred to the relevant component within the OIG for audit, evaluation, investigation, or other review. Some complaints convey concerns about matters within the responsibility of other federal agencies or matters that should be addressed by a program or operation of the Board or the CFPB. We refer such complaints to the appropriate federal agency for evaluation and resolution.

We continue to receive noncriminal consumer complaints regarding consumer financial products and services. For these matters, we typically refer complainants to the consumer group of the appropriate federal regulator for the institution involved, such as the CFPB's Office of Consumer Response, Federal Reserve Consumer Help, or other law enforcement agencies as appropriate. In addition, we receive misdirected complaints regarding COVID-19 pandemic–related programs and operations. In such cases, we refer either the individual or the original complaint to the appropriate agency for further evaluation.

Legislative and Regulatory Review, Congressional and Media Activities, and CIGIE Participation



Legislative and Regulatory Review

Our Office of Legal Services is the independent legal counsel to the IG and OIG staff. Legal Services provides comprehensive legal advice, research, counseling, analysis, and representation in support of our audits, evaluations, and investigations, as well as other professional, management, and administrative functions. Legal Services also keeps the IG and OIG staff aware of recent legal developments that may affect us, the Board, or the CFPB.

In accordance with section 4(a)(2) of the Inspector General Act of 1978, Legal Services independently reviews newly enacted and proposed legislation and regulations to determine their potential effect on the economy and efficiency of the Board's and the CFPB's programs and operations. During this reporting period, Legal Services reviewed 7 legislative items and 2 regulatory items.

Congressional and Media Activities

We communicate and coordinate with various congressional committees on issues of mutual interest. During this reporting period, we provided 40 responses to congressional members and staff concerning the Board and the CFPB. Additionally, we responded to 30 media inquiries.

CIGIE Participation

The IG is a member of CIGIE, which provides a forum for IGs from various government agencies to discuss governmentwide issues and shared concerns. Collectively, CIGIE's members work to improve government programs and operations.

As part of the OIG community, we are proud to be part of the Oversight.gov effort. Oversight.gov is a searchable website containing the latest public reports from federal OIGs. It provides access to over 25,000 reports, detailing for fiscal year 2022 alone more than $63 billion in potential savings and over 5,000 recommendations to improve programs across the federal government.

The IG serves as a member of CIGIE's Legislation Committee and Technology Committee and is the vice chair of the Investigations Committee. The Legislation Committee is the central point of information for legislative initiatives and congressional activities that may affect the OIG community. The Technology Committee facilitates effective IT audits, evaluations, and investigations and provides a forum for the expression of the OIG community's perspective on governmentwide IT operations. The Investigations Committee advises the OIG community on issues involving criminal investigations, criminal investigations personnel, and criminal investigative guidelines. The IG is also a member of CIGIE's Diversity, Equity, Inclusion, and Accessibility Work Group. The work group works to affirm, advance, and augment CIGIE's commitment to promote a diverse, equitable, inclusive, and accessible workforce and workplace environment throughout the OIG community.

In addition, the IG serves on CIGIE's PRAC, which coordinates oversight of federal funds authorized by the CARES Act and the COVID-19 pandemic response. The IG is the vice chair of the PRAC Investigations Subcommittee and is a member of the PRAC Financial Sector Oversight Subcommittee.

Our assistant inspector general for information technology, as the chair of the Information Technology Committee of the Federal Audit Executive Council, works with IT professionals throughout the OIG community and reports to the CIGIE Technology Committee on common IT audit issues.

Our Legal Services attorneys are members of the Council of Counsels to the Inspector General, and our Quality Assurance staff founded and are current members of the Federal Audit Executive Council's Quality Assurance Work Group.

Peer Reviews

Government auditing and investigative standards require that our audit, evaluation, and investigative units be reviewed by a peer OIG organization every 3 years. The Inspector General Act of 1978 requires that OIGs provide in their semiannual reports to Congress information about (1) the most recent peer reviews of their respective organizations and (2) their peer reviews of other OIGs conducted within the semiannual reporting period. The following information addresses these requirements.

- In October 2020, the OIG for the National Archives and Records Administration completed a peer review of our audit organization. We received a peer review rating of *pass*.
- In August 2019, the OIG for the Tennessee Valley Authority completed the latest peer review of our Office of Investigations and rated us as compliant. There were no report recommendations, and we had no pending recommendations from previous peer reviews of our investigations organization.
- In March 2023, the DOJ OIG completed an inspection and evaluation peer review of our evaluation activities. The review team determined that our evaluation policies and procedures are consistent with the December 2020 *Quality Standards for Inspection and Evaluation* and that the reports reviewed generally complied with the covered standards therein and our internal policies and procedures.

See our website for peer review reports of our organization.

Appendix A: Statistical Tables

Table A-1. Audit and Evaluation Reports and Other Reviews Issued to the Board During the Reporting Period

Report title	Type of report
Observations on Cybersecurity Risk Management Processes for Vendors Supporting the Main Street Lending Program and the Secondary Market Corporate Credit Facility	Testing
The Board Can Enhance the Effectiveness of Certain Aspects of Its Model Risk Management Processes for the SR/HC-SABR and BETR Models	Evaluation
The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals	Evaluation
The Board Can Enhance Enterprise Practices for Data Management Roles and Responsibilities	Evaluation
Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2022 and 2021, and Independent Auditors' Reports	Audit
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2022 and 2021, and Independent Auditors' Reports	Audit
Total number of audit reports: 2 Total number of evaluation reports: 3 Total number of other reports: 1	

Table A-2. OIG Reports to the Board With Recommendations That Were Open During the Reporting Period

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
2016 Audit of the Board's Information Security Program	11/16	9	9	0	09/22	8	1
The Board Can Enhance Its Cybersecurity Supervision Approach in the Areas of Third-Party Service Provider Oversight, Resource Management, and Information Sharing	04/17	8	8	0	01/23	7	1
2017 Audit of the Board's Information Security Program	10/17	9	9	0	09/22	8	1
Security Control Review of the Board's Public Website (nonpublic)[a]	03/18	7	7	0	03/23	4	3
Security Control Review of the Board Division of Research and Statistics' General Support System (nonpublic)[b]	09/18	9	9	0	03/23	7	2
2018 Audit of the Board's Information Security Program	10/18	6	6	0	09/22	5	1
The Board Can Strengthen Information Technology Governance[b]	11/18	6	6	0	03/23	3	3
2019 Audit of the Board's Information Security Program	10/19	6	6	0	09/22	4	2

See notes at end of table.

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
The Board's Oversight of Its Designated Financial Market Utility Supervision Program Is Generally Effective, but Certain Program Aspects Can Be Improved	03/20	6	6	0	03/23	2	4
2020 Audit of the Board's Information Security Program	11/20	4	4	0	09/22	3	1
The Board's Implementation of Enterprise Risk Management Continues to Evolve and Can Be Enhanced	09/21	3	3	0	06/22	1	2
The Board Can Improve the Efficiency and Effectiveness of Certain Aspects of Its Consumer Compliance Examination and Enforcement Action Issuance Processes	10/21	10	10	0	12/22	10	0
The Board Can Enhance Its Personnel Security Program	01/22	6	6	0	03/23	3	3
The Board Has Effective Processes to Collect, Aggregate, Validate, and Report CARES Act Lending Program Data	02/22	2	2	0	02/23	2	0
The Board Can Strengthen Inventory and Cybersecurity Life Cycle Processes for Cloud Systems	03/22	3	3	0	n.a.	0	3

See notes at end of table.

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
Testing Results for the Board's Software and License Asset Management Processes (nonpublic)	06/22	1	1	0	n.a.	0	1
Security Control Review of the Board's Secure Document System (nonpublic)[c]	06/22	1	1	0	n.a.	0	1
2022 Audit of the Board's Information Security Program	09/22	1	1	0	n.a.	0	1
The Board Can Enhance the Effectiveness of Certain Aspects of Its Model Risk Management Processes for the SR/HC-SABR and BETR Models	12/22	7	7	0	03/23	0	7
The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals	12/22	9	9	0	n.a.	0	9
The Board Can Enhance Enterprise Practices for Data Management Roles and Responsibilities	01/23	5	5	0	n.a.	0	5

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

n.a. not applicable.

[a] We verified the actions taken to close two of these recommendations prior to the end of the reporting period, but the official closure occurred after March 31, 2023.

[b] We verified the actions taken to close these recommendations prior to the end of the reporting period, but the official closure occurred after March 31, 2023.

[c] We verified the actions taken to close this recommendation prior to the end of the reporting period, but the official closure occurred after March 31, 2023.

Table A-3. Audit and Evaluation Reports and Other Reviews Issued to the CFPB During the Reporting Period

Report title	Type of report
Independent Accountants’ Report on the CFPB’s Fiscal Year 2022 Compliance With the Payment Integrity Information Act of 2019	Audit
2023 Major Management Challenges for the CFPB	Management challenges
Total number of audit reports: 1 Total number of evaluation reports: 0 Total number of other reports: 1	

Table A-4. OIG Reports to the CFPB With Recommendations That Were Open During the Reporting Period

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
2014 Audit of the CFPB's Information Security Program	11/14	3	3	0	03/23	2	1
2017 Audit of the CFPB's Information Security Program	10/17	7	7	0	03/23	6	1
The CFPB Can Further Strengthen Controls Over Certain Offboarding Processes and Data	01/18	11	11	0	01/23	10	1
2018 Audit of the Bureau's Information Security Program	10/18	4	4	0	03/23	2	2
The Bureau Can Improve the Effectiveness of Its Life Cycle Processes for FedRAMP	07/19	3	3	0	03/23	3	0
2019 Audit of the Bureau's Information Security Program	10/19	7	7	0	03/23	6	1
Testing Results for the Bureau's Plan of Action and Milestones Process	04/20	2	2	0	03/23	2	0
Technical Testing Results for the Bureau's Legal Enclave (nonpublic)	07/20	4	4	0	03/23	1	3
The Bureau Can Strengthen Its Hiring Practices and Can Continue Its Efforts to Cultivate a Diverse Workforce	03/21	10	10	0	03/23	5	5

See notes at end of table.

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
The Bureau Can Improve Its Controls for Issuing and Managing Interagency Agreements	07/21	6	6	0	03/23	2	4
Evaluation of the Bureau's Implementation of Splunk (nonpublic)	09/21	4	4	0	03/23	1	3
2021 Audit of the Bureau's Information Security Program	10/21	3	3	0	03/23	1	2
The Bureau Can Improve Aspects of Its Quality Management Program for Supervision Activities	11/21	9	9	0	02/23	8	1
The Bureau Can Further Enhance Certain Aspects of Its Approach to Supervising Nondepository Institutions	12/21	5	5	0	01/23	5	0
The CFPB Is Generally Prepared to Implement the OPEN Government Data Act and Can Take Additional Steps to Further Align With Related Requirements	09/22	2	2	0	n.a.	0	2
2022 Audit of the CFPB's Information Security Program	09/22	6	6	0	n.a.	0	6

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

n.a. not applicable.

Table A-5. Audit and Evaluation Reports Issued to the Board and the CFPB With Questioned Costs, Unsupported Costs, or Recommendations That Funds Be Put to Better Use During the Reporting Period

Reports	Number	Dollar value
With questioned costs, unsupported costs, or recommendations that funds be put to better use, regardless of whether a management decision had been made	0	$0

Note: Because the Board and the CFPB are primarily regulatory and policymaking agencies, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable. In the event that an audit or evaluation report contains quantifiable information regarding questioned costs, unsupported costs, or recommendations that funds be put to better use, this table will be expanded.

Table A-6. Summary Statistics on Investigations During the Reporting Period

Investigative actions	Number or dollar value[a]
Investigative caseload	
Investigations open at end of previous reporting period	169
Investigations opened during the reporting period	25
Investigations closed during the reporting period	15
Investigations open at end of the reporting period	179
Investigative results for the reporting period	
Persons referred to DOJ prosecutors	4
Persons referred to state/local prosecutors	0
Declinations received	10
Joint investigations	138
Reports of investigation issued	0
Oral and/or written reprimands	0
Terminations of employment	0
Arrests	20
Suspensions	1
Debarments	1
Prohibitions from banking industry	0
Indictments	24
Criminal informations	12
Criminal complaints	1
Convictions	24
Civil actions	$0

See notes at end of table.

Investigative actions	Number or dollar value[a]
Administrative monetary recoveries and reimbursements	$0
Civil judgments	$0
Criminal fines, restitution, and special assessments	$32,932,625
Forfeiture	$20,195,500

Note: Some of the investigative numbers may include data also captured by other OIGs.

[a] Metrics: These statistics were compiled from the OIG's investigative case management and tracking system.

Table A-7. Summary Statistics on Hotline Activities During the Reporting Period

Hotline complaints	Number
Complaints pending from previous reporting period	14
Complaints received during reporting period	94
Total complaints for reporting period	108
Complaints resolved during reporting period	105
Complaints pending	3

Appendix B: Additional Mandated Reporting Requirements

The Inspector General Empowerment Act of 2016 and the Securing Inspector General Independence Act of 2022 amended the semiannual reporting requirements for OIGs under section 5 of the Inspector General Act of 1978. These reporting requirements include summaries of certain audits, inspections, and evaluations; investigative statistics; summaries of investigations of senior government employees and the name of the senior government official, if already made public by the OIG; whistleblower retaliation statistics; summaries of interference with OIG independence; and summaries of closed audits, evaluations, inspections, and investigations that were not publicly disclosed. Our response to these requirements is below.

An identification of each recommendation made before the reporting period, for which corrective action has not been completed, including the potential cost savings associated with the recommendation.

- See appendix C.

Statistical tables showing for the reporting period (1) the number of issued investigative reports, (2) the number of persons referred to the DOJ for criminal prosecution, (3) the number of persons referred to state and local authorities for criminal prosecution, and (4) the number of indictments and criminal informations that resulted from any prior referral to prosecuting authorities. Describe the metrics used to develop the data for these new statistical tables.

- See table A-6.

A report on each investigation conducted by the OIG where allegations of misconduct were substantiated involving a senior government employee, which includes (1) the name of the senior government official, if already made public by the OIG; (2) a detailed description of the facts and circumstances of the investigation as well as the status and disposition of the matter; (3) whether the matter was referred to the DOJ and the date of the referral; and (4) whether the DOJ declined the referral and the date of such declination.

- We have no such investigations to report.

A detailed description of any instance of whistleblower retaliation, including information about the official found to have engaged in retaliation and what, if any, consequences the agency imposed to hold that official accountable.

- We have no such instances to report.

Information related to interference by the Board or the CFPB, including (1) a detailed description of any attempt by the Board or the CFPB to interfere with the independence of the OIG, such as through budget constraints designed to limit OIG capabilities and incidents when either agency has resisted or objected to OIG oversight activities or restricted or significantly delayed OIG access to information, including the justification of the establishment for such action, and (2) a summary of each report made to the Board of Governors or the CFPB director during the reporting period regarding unreasonable refusals or failures to provide information or assistance to the OIG.

- We have nothing to report.

Detailed descriptions of (1) inspections, evaluations, and audits conducted by the OIG that were closed and not disclosed to the public and (2) investigations conducted by the OIG involving a senior government employee that were closed and not disclosed to the public.

- We have nothing to report.

Appendix C: Open Recommendations Made Before the Reporting Period

The Securing Inspector General Independence Act of 2022 requires that we identify each recommendation made before the reporting period for which corrective action has not been completed, including the cost savings associated with the recommendation. Because the Board and the CFPB are primarily regulatory and policymaking agencies, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Board of Governors of the Federal Reserve System

Table C-1. Reports to the Board With Open Recommendations, by Calendar Year

Year	Number of reports with open recommendations	Number of open recommendations
2016	1	1
2017	2	2
2018	4	9
2019	1	2
2020	2	5
2021	1	2
2022[a]	5	9

[a] Through September 30, 2022.

2016 Audit of the Board's Information Security Program

2016-IT-B-013 November 10, 2016

Total number of recommendations: 9
Recommendations open: 1

1. Work with the chief operating officer to perform a risk assessment to determine which aspects of an insider threat program are applicable to other types of sensitive Board information and develop and implement an agencywide insider threat strategy for sensitive but unclassified Board information, as appropriate.

The Board Can Enhance Its Cybersecurity Supervision Approach in the Areas of Third-Party Service Provider Oversight, Resource Management, and Information Sharing

2017-IT-B-009 April 17, 2017

Total number of recommendations: 8
Recommendations open: 1

1. Reiterate to financial institutions the requirement to notify their primary regulator of the existence of new service relationships, and develop a process to periodically reconcile and refresh the listing of multiregional data processing servicer firms and technology service providers.

2017 Audit of the Board's Information Security Program

2017-IT-B-018 October 31, 2017

Total number of recommendations: 9
Recommendations open: 1

8. Develop, implement, and regularly update an information security continuous monitoring strategy that includes performance measures to gauge the effectiveness of related processes and provides agencywide security status.

Security Control Review of the Board's Public Website (nonpublic)

2018-IT-B-008R March 21, 2018

Total number of recommendations: 7
Recommendations open: 3[3]

The open recommendations relate to strengthening cybersecurity risk management processes.

Security Control Review of the Board Division of Research and Statistics' General Support System (nonpublic)

2018-IT-B-015R September 26, 2018

Total number of recommendations: 9
Recommendations open: 2[4]

The open recommendations relate to strengthening cybersecurity risk management and audit logging processes.

2018 Audit of the Board's Information Security Program

2018-IT-B-017 October 31, 2018

Total number of recommendations: 6
Recommendations open: 1

6. Develop and implement a process to assess the knowledge, skills, and abilities of Board staff with significant security responsibilities and establish plans to close identified gaps.

The Board Can Strengthen Information Technology Governance

2018-IT-B-020 November 5, 2018

Total number of recommendations: 6
Recommendations open: 3[5]

2. Require divisions with embedded IT units to inform the chief information officer of their IT investment plans.

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3. We verified the actions taken to close two of these recommendations prior to the end of the reporting period, but the official closure occurred after March 31, 2023.

4. We verified the actions taken to close these recommendations prior to the end of the reporting period, but the official closure occurred after March 31, 2023.

5. We verified the actions taken to close these recommendations prior to the end of the reporting period, but the official closure occurred after March 31, 2023.

3. Require that all IT investments align with the Board's enterprisewide architecture unless such IT investments receive a waiver from the chief information officer.

4. Clarify and document the roles and responsibilities of the Board's IT governance boards and committees and require division-level governance boards and committees to include the chief information officer, or their designee, as appropriate.

2019 Audit of the Board's Information Security Program

2019-IT-B-016 October 31, 2019

Total number of recommendations: 6
Recommendations open: 2

5. Work with the System to ensure that the data loss protection replacement solution
   a. functions consistently across the Board's technology platforms.
   b. supports rulesets that limit the exfiltration weaknesses we identified, to the extent practicable.

6. Develop and implement a Boardwide process to incorporate the review of data loss protection logs into employee and contractor offboarding processes to identify any potential unauthorized data exfiltrations or access.

The Board's Oversight of Its Designated Financial Market Utility Supervision Program Is Generally Effective, but Certain Program Aspects Can Be Improved

2020-FMIC-B-005 March 18, 2020

Total number of recommendations: 6
Recommendations open: 4

2. Define and document which parties at the division director and governor levels will have a role in reviewing and approving enforcement actions for designated financial market utilities.

4. Assess the Board's core objectives in overseeing designated financial market utilities for which it is not the supervisory agency. Based on this assessment, create guidance that addresses the Board's preferred method for communicating examination findings to other supervisory agencies.

5. Develop a process for reconciling the Board's examination findings for designated financial market utilities for which it is not the supervisory agency with those of the other supervisory agencies and for tracking the adoption of the Board's findings.

6. Discuss with relevant Board and Reserve Bank staff and document
   a. the various situations that could prompt emergency changes.
   b. the review process for emergency changes.

2020 Audit of the Board's Information Security Program

2020-IT-B-020 November 2, 2020

Total number of recommendations: 4
Recommendations open: 1

3. Ensure that the Board's continuous monitoring processes include the security control requirements for applicable network devices.

The Board's Implementation of Enterprise Risk Management Continues to Evolve and Can Be Enhanced

2021-IT-B-011 September 15, 2021

Total number of recommendations: 3
Recommendations open: 2

1. Work with Board divisions to conduct an assessment of the current risk management practices and risk culture across the agency and use the results to inform the direction of the Board's enterprise risk management program.
2. Work with the administrative governor, as appropriate, to determine an optimal governance structure and associated reporting relationships for the agency's enterprise risk management program and update the *Delegations of Administrative Authority* accordingly.

The Board Can Enhance Its Personnel Security Program

2022-MO-B-001 January 31, 2022

Total number of recommendations: 6
Recommendations open: 3

4. Develop and implement a process to
   a. perform periodic reconciliations against the Board's official human resources records to ensure the completeness and accuracy of employee and contractor data in the case management system.
   b. resolve any discrepancies identified by periodic reconciliations.

5. Develop and implement a process to prevent or detect missing or overdue reinvestigation due dates.

6. Develop and implement a process to

   b. document the annual validation of clearance holders' need for continued access to classified information.

The Board Can Strengthen Inventory and Cybersecurity Life Cycle Processes for Cloud Systems

2022-IT-B-006 March 23, 2022

Total number of recommendations: 3
Recommendations open: 3

1. Ensure that the Cloud Resource Center's inventory of cloud projects in the configuration and production phases is comprehensive and periodically maintained.

2. Develop and implement a process to ensure that the Federal Risk and Authorization Management Program Program Management Office has an accurate inventory of Federal Risk and Authorization Management Program–approved cloud systems used by the Board.

3. Ensure that the Board's information security continuous monitoring standards and associated procedures provide consistent guidance on continuous monitoring frequencies and associated documentation review requirements for cloud service providers.

Testing Results for the Board's Software and License Asset Management Processes (nonpublic)

2022-IT-B-008R June 15, 2022

Total number of recommendations: 1
Recommendations open: 1

The open recommendation relates to strengthening software asset management processes.

Security Control Review of the Board's Secure Document System (nonpublic)

2022-IT-B-009R June 15, 2022

Total number of recommendations: 1
Recommendations open: 1[6]

The open recommendation relates to strengthening configuration management processes.

2022 Audit of the Board's Information Security Program

2022-IT-B-013 September 30, 2022

Total number of recommendations: 1
Recommendations open: 1

1. Ensure that risks are appropriately categorized and prioritized on the Board's cybersecurity risk register.

6. We verified the actions taken to close this recommendation prior to the end of the reporting period, but the official closure occurred after March 31, 2023.

Consumer Financial Protection Bureau

Table C-2. Reports to the CFPB With Open Recommendations, by Calendar Year

Year	Number of reports with open recommendations	Number of open recommendations
2014	1	1
2015	0	0
2016	0	0
2017	1	1
2018	2	3
2019	1	1
2020	1	3
2021	5	15
2022[a]	2	8

[a] Through September 30, 2022.

2014 Audit of the CFPB's Information Security Program

2014-IT-C-020 November 14, 2014

Total number of recommendations: 3
Recommendations open: 1

3. Strengthen the CFPB's vulnerability management practices by implementing an automated solution and process to periodically assess and manage database and application-level security configurations.

2017 Audit of the CFPB's Information Security Program

2017-IT-C-019 October 31, 2017

Total number of recommendations: 7
Recommendations open: 1

1. Ensure that a risk appetite statement and associated risk tolerance levels are defined and used to develop and maintain an agencywide risk profile.

The CFPB Can Further Strengthen Controls Over Certain Offboarding Processes and Data

2018-MO-C-001 January 22, 2018

Total number of recommendations: 11
Recommendations open: 1

2. Finalize the building access system upgrade to ensure that personal identity verification badges and site badges are automatically deactivated in the building access system and that personal identity verification badges are automatically deactivated in the USAccess system upon an individual's separation.

2018 Audit of the Bureau's Information Security Program

2018-IT-C-018 October 31, 2018

Total number of recommendations: 4
Recommendations open: 2

1. Strengthen configuration management processes by
   a. remediating configuration-related vulnerabilities in a timely manner.
   b. ensuring that optimal resources are allocated to perform vulnerability remediation activities.
3. Determine whether established processes and procedures for management of user-access agreements and rules-of-behavior forms for privileged users are effective and adequately resourced and make changes as needed.

2019 Audit of the Bureau's Information Security Program

2019-IT-C-015 October 31, 2019

Total number of recommendations: 7
Recommendations open: 1

3. Ensure that user-access agreements are consistently utilized to approve and maintain access to CFPB systems for nonprivileged users.

Technical Testing Results for the Bureau's Legal Enclave (nonpublic)

2020-IT-C-017R **July 22, 2020**

Total number of recommendations: 4
Recommendations open: 3

The three open recommendations relate to strengthening vulnerability management, configuration management, and testing processes.

The Bureau Can Strengthen Its Hiring Practices and Can Continue Its Efforts to Cultivate a Diverse Workforce

2021-MO-C-006 **March 29, 2021**

Total number of recommendations: 10
Recommendations open: 5

1. Monitor the use of structured interviews and provide periodic reports tracking the use of structured interviews to senior CFPB officials, such as division and office leaders and the chief operating officer.

5. Align policy, procedure, and guidance documents with the actual practices related to identifying subject-matter experts early in the hiring process and requiring subject-matter expert signatures on combined rating sheets.

7. Implement automated system controls to ensure that key date fields are completed for all hiring actions in the Hiring Tracker database.

8. Update the *Measuring and Reporting Time to Hire* standard operating procedure to include
   a. comprehensive guidance on documenting purposeful omissions in the Hiring Tracker data entry form.
   b. Office of Human Capital practices for reviewing the Hiring Tracker database for accuracy and completeness.

9. Require training for staff responsible for entering information into the Hiring Tracker database on
   a. using the Hiring Tracker data entry form and database.
   b. the updated standard operating procedure so that practices align with established processes.

The Bureau Can Improve Its Controls for Issuing and Managing Interagency Agreements

2021-FMIC-C-009 **July 21, 2021**

Total number of recommendations: 6
Recommendations open: 4

1. Create or update existing interagency agreement (IAA) policies and procedures to establish clear expectations for issuing and managing IAAs. Ensure that expectations for the key activities in the IAA process are addressed, including

    a. roles and responsibilities of relevant parties, including the Bureau of the Fiscal Service, Administrative Resource Center; the Office of the Chief Financial Officer; the Office of the Chief Procurement Officer; program offices; and invoice approvers.

    b. training and certification requirements for invoice approvers.

    c. developing and maintaining IAA agreement documents.

    d. monitoring performance under the IAA.

    e. approving Intra-Governmental Payment and Collections (IPACs).

    f. deobligating and closing IAAs.

3. Enhance oversight of the program offices' compliance with IPAC policies and procedures. Consider actions such as targeted training for invoice approvers regarding IPAC approvals as well as enforcement measures to foster compliance with IPAC policies and procedures.

4. Strengthen controls to ensure that excess funds on future IAAs are deobligated in a timely manner. Consider mechanisms to reinforce expectations and incentivize program offices to coordinate with servicing agencies to reconcile billings and initiate deobligations closer to the end of the IAA period of performance and promptly provide deobligation documentation to the Office of the Chief Financial Officer.

6. Review the IAA-related report package on which it intends to rely and establish processes to ensure that all IAA data are complete.

Evaluation of the Bureau's Implementation of Splunk (nonpublic)

2021-IT-C-010R **September 8, 2021**

Total number of recommendations: 4
Recommendations open: 3

The three open recommendations relate to strengthening risk management, access control, and hardware asset management processes.

2021 Audit of the Bureau's Information Security Program

2021-IT-C-015 **October 29, 2021**

Total number of recommendations: 3
Recommendations open: 2

1. Develop and implement a cybersecurity risk register and associated process to identify and manage organizationwide cybersecurity risks.

3. Ensure that the CFPB's configuration management plan is updated to reflect current processes, procedures, and technologies.

The Bureau Can Improve Aspects of Its Quality Management Program for Supervision Activities

2021-SR-C-016 **November 1, 2021**

Total number of recommendations: 9
Recommendations open: 1

7. Assess the Quality Management Program's current staffing level and structure to determine whether additional or dedicated resources are needed or whether the current 25 percent time allotment for conducting quality assurance reviews and the 2-week time allotment for quality control reviews should be revised. Develop and implement plans to address the program's staffing needs based on the results of the assessment.

The CFPB Is Generally Prepared to Implement the OPEN Government Data Act and Can Take Additional Steps to Further Align With Related Requirements

2022-MO-C-012 September 28, 2022

Total number of recommendations: 2
Recommendations open: 2

1. Update the *Policy on Information Governance* and its related companion policies to be consistent with the CFPB's *Policy on the Development of Internal Policies* and to better align with the requirements of the Open, Public, Electronic, and Necessary Government Data Act of 2018 and phase I guidance.

2. Draft a strategic information resources management plan, which may be updated and implemented when final phase II guidance is issued.

2022 Audit of the CFPB's Information Security Program

2022-IT-C-014 September 30, 2022

Total number of recommendations: 6
Recommendations open: 6

1. Ensure that policies and supporting procedures that address data loss prevention configurations, tuning, and governance are developed and implemented.

2. Ensure that the CFPB's new data loss prevention tool is implemented and configured to monitor traffic across all network access points and environments, as applicable.

3. Ensure that policies and supporting procedures for developing and maintaining an enterprisewide software inventory are developed and maintained.

4. Ensure that an enterprisewide software inventory is conducted and maintained.

5. Ensure the development of policies and procedures for the performance and maintenance of an organizationwide business impact analysis.

6. Update the CFPB's organizationwide business impact analysis and ensure that the results are used to make applicable changes to related contingency and continuity plans.

Abbreviations

BETR	Bank Exams Tailored to Risk
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CEO	chief executive officer
CI	Criminal Investigation
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DIF	Deposit Insurance Fund
DOJ	U.S. Department of Justice
EIDL	Economic Injury Disaster Loan
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHFA	Federal Housing Finance Agency
FISMA	Federal Information Security Modernization Act of 2014
FRB Boston	Federal Reserve Bank of Boston
FRB New York	Federal Reserve Bank of New York
HC-SABR	Holding Company Statistical Assessment of Bank Risk
IAA	interagency agreement
ICO	initial coin offering
IG	inspector general
IPAC	Intra-Governmental Payment and Collection
IPO	initial public offering
IRS	Internal Revenue Service
IT	information technology
MSLP	Main Street Lending Program
OPEN Government Data Act	Open, Public, Electronic, and Necessary Government Data Act of 2018
PIIA	Payment Integrity Information Act of 2019

PPP	Paycheck Protection Program
PPPLF	Paycheck Protection Program Liquidity Facility
PRAC	Pandemic Response Accountability Committee
SBA	U.S. Small Business Administration
SR/HC-SABR	SR-SABR and HC-SABR
SR-SABR	Supervision and Regulation Statistical Assessment of Bank Risk
TBIS	Titanium Blockchain Infrastructure Services Inc.
TIGTA	U.S. Treasury Inspector General for Tax Administration
USPIS	U.S. Postal Inspection Service

Office of Inspector General

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