

Board of Governors of the Federal Reserve System

The Board Has Effective Processes to Collect, Aggregate, Validate, and Report CARES Act Lending Program Data



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



Executive Summary, 2022-FMIC-B-004, February 28, 2022

The Board Has Effective Processes to Collect, Aggregate, Validate, and Report CARES Act Lending Program Data

Findings

Section 13(3) of the Federal Reserve Act and section 4026 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act require the Board of Governors of the Federal Reserve System to publicly report on the CARES Act lending programs. The Board meets its CARES Act reporting requirements; voluntarily reports transaction-specific data; and publishes complete and accurate data, with the exception of some immaterial inaccuracies.

The Board established and documented processes for collecting, aggregating, validating, and reporting CARES Act lending program data; however, it can improve the documentation of a key decision related to how it gains assurance that the publicly reported transaction-specific data are accurate and complete. Routinely updating documentation and the associated key decisions may help the Board quickly establish processes for the public reporting of lending activities should similar circumstances arise in the future.

Although the Board's decision to publish transaction-specific data exceeded applicable statutory requirements for publishing aggregate-level data on the lending programs, we identified additional opportunities to enhance transparency and reduce the potential to report immaterial inaccuracies in the supplemental data. The opportunities we identified can further the Board's long-term strategic objective to increase the public's understanding of its activities.

These improvement opportunities arose because the Board created the CARES Act lending programs within a compressed time frame. The Board and the Federal Reserve Banks acted quickly to meet their reporting requirements and focused on ensuring financial accuracy.

Recommendations

Our report contains recommendations designed to help the Board quickly establish processes for reporting on lending programs under similar future circumstances. In its response to our draft report, the Board concurs with our recommendations and outlines actions that have been or will be taken to address them. The Board has taken sufficient actions to address our recommendation related to documenting a key decision, and we are closing this recommendation upon issuance of this report. We will follow up to ensure that the remaining recommendation is fully addressed.

Purpose

The objective of our audit was to assess the Board's processes for collecting, aggregating, validating, and reporting data related to its CARES Act lending programs. The scope of our audit focused on the Board's internal controls over the transfer of data from the Reserve Banks; Board processes for ensuring that the data are accurate and complete; and compliance with the relevant reporting requirements for all of the CARES Act lending programs—the Corporate Credit Facilities, which include the Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility (SMCCF); the Main Street Lending Program (MSLP); the Paycheck Protection Program Liquidity Facility (PPPLF); the Term Asset-Backed Securities Loan Facility; and the Municipal Lending Facility. Although the PPPLF does not receive an equity investment from the U.S. Department of the Treasury, we include it in our definition of a CARES Act lending program because it was created to support the CARES Act—established Paycheck Protection Program, and the Board treated the PPPLF like the other CARES Act lending programs for reporting purposes. In addition, we conducted validation testing on SMCCF and MSLP transaction-specific data. We excluded the other CARES Act lending programs from our validation testing activities because the other lending programs were subject to other independent oversight, had no active loans, had limited users, or were established during the 2008 financial crisis.

Background

The COVID-19 pandemic disrupted economic activity in the United States, which affected many sectors of the financial system. In response to the pandemic, the Board established lending programs under the CARES Act to support state and local governments and businesses of all sizes. The Federal Reserve System is required by statute to report on any outstanding loan or guarantee programs once every 30 days. To meet its 30-day reporting requirements, the Board has established processes for collecting, aggregating, validating, and reporting CARES Act lending program data.



Office of Inspector General

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

Recommendations, 2022-FMIC-B-004, February 28, 2022

The Board Has Effective Processes to Collect, Aggregate, Validate, and Report CARES Act Lending Program Data

Finding 1: The Board Has Effective Processes to Meet 30-Day CARES Act Reporting Requirements and Voluntarily Produces Materially Accurate Transaction-Specific Data but Could Have Documented a Key Decision

Number	Recommendation	Responsible office
1	Document the key decision to rely on Reserve Bank internal controls to gain assurance over publicly reported transaction-specific CARES Act data, as well as the rationale for that decision.	Division of Reserve Bank Operations and Payment Systems, in consultation with Legal Division

Finding 2: The Board Can Enhance Its Discretionary Reporting

Number	Recommendation	Responsible office
2	Identify and document learning opportunities from the CARES Act reporting experience so that they may be used by the Board when future exigent circumstances arise.	Division of Reserve Bank Operations and Payment Systems and Legal Division



Office of Inspector General

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

MEMORANDUM

DATE: February 28, 2022

TO: Matthew J. Eichner
Director, Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

Mark E. Van Der Weide
General Counsel
Board of Governors of the Federal Reserve System

FROM: Cynthia Gray *Cynthia Gray*
Assistant Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2022-FMIC-B-004: *The Board Has Effective Processes to Collect, Aggregate, Validate, and Report CARES Act Lending Program Data*

We have completed our report on the subject audit. We conducted this audit to assess the Board of Governors of the Federal Reserve System's processes for collecting, aggregating, validating, and reporting data related to its Coronavirus Aid, Relief, and Economic Security (CARES) Act lending programs. We have defined *CARES Act lending programs* as all Federal Reserve Act section 13(3) emergency lending programs that received equity investments from the U.S. Department of the Treasury pursuant to the CARES Act, as well as the Paycheck Protection Program Liquidity Facility.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that have been or will be taken to address our recommendations. For our recommendation related to documenting the key decision to rely on the Federal Reserve Banks' internal controls to gain assurance over publicly reported transaction-specific CARES Act data, as well as the rationale for that decision, we have reviewed documentation associated with the actions taken by the Board, and we believe that the agency has taken sufficient action to close this recommendation. We will follow up to ensure that the remaining recommendation is fully addressed. We have included your response as appendix C to our report.

We appreciate the cooperation that we received from the Division of Reserve Bank Operations and Payment Systems, the Legal Division, and the Reserve Banks during our audit. Please contact me if you would like to discuss this report or any related issues.

cc: Patrick J. McClanahan
Andreas Lehnert
Ricardo A. Aguilera
Timothy Kirby
Lawrence Mize
Jeff Walker
Asad Kudiya
Melissa Ku
Bernard Kim
Sarah Podrygula
Katherine Tom
Cheryl Patterson
Kenneth Montgomery
Naureen Hassan
Ron J. Feldman
Andrew Danzig
Susan McLaughlin
Barbara Biel
Rita Csejtey
Meghan McCurdy
Alex Leonard
Steffanie A. Brady
Sandra E. Costa
Erin Boland
Clive Blackwood
Jon D. Colvin
Richard Thornton



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Introduction

Objective

The COVID-19 pandemic disrupted economic activity in the United States, which affected many sectors of the financial system. Specifically, the availability of credit contracted for small and medium-size businesses and debt issuers as well as state and local governments were affected by tax filing postponement and significant decreases in other sources of tax revenue. This economic disruption heightened the need for companies and government institutions to obtain credit to manage cash flows and sustain operations until economic conditions normalized. In response, the Board of Governors of the Federal Reserve System established emergency lending programs to support state and local governments and businesses of all sizes. On a monthly basis, the Board publicly reports data on these lending programs.

The objective of this audit was to assess the Board’s processes for collecting, aggregating, validating, and reporting data related to its Coronavirus Aid, Relief, and Economic Security (CARES) Act lending programs.¹ The scope of our audit focused on the Board’s internal controls over the transfer of data from the Federal Reserve Banks, the Board’s processes for ensuring that the data are accurate and complete, and the Board’s compliance with the relevant reporting requirements for all the CARES Act lending programs. In addition, we conducted validation testing on transaction-specific data by comparing public data to source data in the relevant information systems for two CARES Act lending programs. We excluded the other CARES Act lending programs from validation testing because they had no active loans, had limited users, were subject to other independent oversight, or were established during the 2008 financial crisis. Details on our scope and methodology are in appendix A.

Background

Section 13(3) of the Federal Reserve Act permits the Board of Governors, in “unusual and exigent circumstances” and under other conditions, to authorize Reserve Banks to extend credit to participants in any program or facility with broad-based eligibility. In response to the economic effects of the COVID-19 pandemic, the Board of Governors determined that “unusual and exigent circumstances” existed for it to exercise its authority under section 13(3) of the Federal Reserve Act, and it established the following CARES Act lending programs:²

¹ We define *CARES Act lending programs* as all Federal Reserve Act section 13(3) emergency lending programs that received equity investments from the U.S. Department of the Treasury (Treasury) pursuant to the CARES Act, as well as the Paycheck Protection Program Liquidity Facility (PPPLF). The Board established the PPPLF to support the CARES Act–established Paycheck Protection Program, which is administered by the U.S. Small Business Administration, and treated it like the other CARES Act lending programs for reporting purposes. The PPPLF does not receive an equity investment from Treasury.

² In addition to the CARES Act lending programs established in response to the COVID-19 pandemic, the Board also established three other facilities: the Primary Dealer Credit Facility, the Commercial Paper Funding Facility, and the Money Market Mutual Fund Liquidity Facility. These facilities were not part of our scope.

- the corporate credit facilities, including the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF)
- the Main Street Lending Program (MSLP), which includes the Main Street New Loan Facility, the Main Street Expanded Loan Facility, the Main Street Priority Loan Facility, the Nonprofit Organization Expanded Loan Facility, and the Nonprofit Organization New Loan Facility
- the Paycheck Protection Program Liquidity Facility (PPPLF)
- the Term Asset-Backed Securities Loan Facility (TALF)
- the Municipal Lending Facility (MLF)

In addition to authorizing and establishing the CARES Act lending programs, the Board established the structure and basic terms of the lending programs. Further, the Board authorized the Federal Reserve Banks of New York and Boston to manage and administer specific lending programs, which includes establishing policies and procedures associated with the programs, implementing internal controls, and maintaining related data.³

Reporting on the CARES Act Lending Programs

Section 13(3) of the Federal Reserve Act requires the Board to provide to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services a report on (1) any new lending facility not later than 7 days after Board authorization and (2) any outstanding loan or guarantee programs once every 30 days. Further, section 13(3)(C)(ii) of the Federal Reserve Act requires that the 30-day reports include

- the value of collateral
- the amount of interest, fees, and other revenue or items of value received in exchange for the assistance
- the expected or final cost to the taxpayers of such assistance

In addition to these Federal Reserve Act section 13(3) reporting requirements, the CARES Act mandates public reporting of data about the government’s pandemic response. Specifically, section 4026 requires the Board to post to its public website a copy of each report submitted to Congress under section 13(3) of the Federal Reserve Act no later than 7 days after transmittal to Congress.

In April 2020, in an effort to remain transparent and accountable, the Board voluntarily committed to reporting transaction-specific data as a supplement to the required 30-day reports for the CARES Act lending programs. Transaction-specific data can include the names and details of the participants in each program; the amounts borrowed; the interest rate charged; and the overall costs, revenues, and fees for each purchase or loan.⁴

³ The Federal Reserve Bank of New York manages the corporate credit facilities, the TALF, and the MLF; the Federal Reserve Bank of Boston manages the MSLP; the Federal Reserve Bank of Minneapolis manages the operations of the PPPLF; and each Reserve Bank implements the operations of the PPPLF for its district.

⁴ During the course of our review, the Board published CARES Act lending programs reports and related transaction-specific data on its public website.

The Board's decision to voluntarily disclose transaction-specific data aligns with its *Strategic Plan 2020–23*. This plan includes a goal to promote broader, ongoing engagement with external individuals and groups and improved understanding of the Board's mission through outreach and public engagement.

Key Systems Used to Process and Store CARES Act Data

The Federal Reserve System uses three existing information systems to maintain CARES Act lending program data. The Federal Reserve Banks of Dallas, Philadelphia, and Boston are responsible for maintaining the information systems noted below, respectively.⁵ The Reserve Banks are also responsible for establishing and maintaining processes to ensure that internal controls for their respective systems are designed and operating effectively. These information systems and the data they maintain include the following:

- The System's lending application processes discount window lending activity, among other things.⁶ The lending application helps the Reserve Banks understand, manage risk, and facilitate extensions of credit within the System.
- The collateral management application facilitates the recordkeeping of pledged collateral, including securities and whole loans, and provides collateral valuation functionality.
- The general ledger is the accounting application used by the System. The general ledger is a system that tracks the assets, liabilities, and commitments of the Reserve Banks.

CARES Act Data Collection, Aggregation, Validation, and Reporting Processes

To meet its 30-day reporting requirements, the Board has developed processes for collecting, aggregating, validating, and reporting CARES Act lending program data. To collect and aggregate the CARES Act lending program data from the Reserve Banks, the Board developed templates for the Reserve Banks to populate for the 30-day reports and transaction-specific disclosures. The Board also established time frames within which the Reserve Banks provide the data. Details on the process steps used by the Federal Reserve Banks of New York, Boston, and Minneapolis to collect and aggregate their respective CARES Act lending program data are included in appendix B.

Further, the Board established consistent data validation and reporting processes across the six CARES Act lending programs in our scope. The data validation process steps are as follows:

- Upon receipt of the CARES Act lending program data provided via email or secure site by the Reserve Banks, the Board's Division of Reserve Bank Operations and Payment Systems (RBOPS)

⁵ Our scope did not include a security control review of systems involved in the data transfer process for the CARES Act lending programs or third-party systems. These information systems will be reviewed separately.

⁶ The *discount window* is the System's lending to depository institutions; this lending plays an important role in supporting the liquidity and stability of the banking system and the effective implementation of monetary policy. By providing ready access to funding, the discount window helps depository institutions manage their liquidity risks efficiently and avoid actions that have negative consequences for their customers.

reconciles the aggregate-level data by matching the totals in the Reserve Bank spreadsheets to those in the general ledger.⁷

- RBOPS requests supporting documentation for 30-day reports, as needed, to better understand how the Reserve Banks recorded the transactions.
- Once validated, RBOPS emails the review results to the Legal Division.

The data reporting process steps are as follows:

- The Legal Division leads the 30-day reporting process by collecting the Reserve Bank–provided lending program data and uses these data to prepare and review the consolidated draft 30-day report.
- The Legal Division sends the draft 30-day reports and the spreadsheets to relevant Board staff in the Legal Division, RBOPS, and the Division of Financial Stability for concurrent review.
- The Board chair reviews and approves the package, which includes the 30-day reports, transaction-specific spreadsheets, and letters to the required Senate and House committee representatives.
- The Division of Board Members’ Public Information Outreach program is notified that the spreadsheets and the reports are ready for publishing.
- The Public Information Outreach program publishes the documents on the Board’s monthly COVID-19 reporting website.

⁷ To gain assurance over the transaction-specific data in the Reserve Bank–provided spreadsheets, RBOPS officials stated that division staff members review Reserve Bank internal controls over the data.



Finding 1: The Board Has Effective Processes to Meet 30-Day CARES Act Reporting Requirements and Voluntarily Produces Materially Accurate Transaction-Specific Data but Could Have Documented a Key Decision

We found that the Board met its 30-day reporting requirements for the CARES Act lending programs. The Board also provided the public with additional transparency by voluntarily reporting transaction-specific data; from our testing, we found the data to be complete and accurate, with the exception of some immaterial inaccuracies. Moreover, we found that the Board has documented its processes for collecting, aggregating, validating, and reporting CARES Act lending program data but also could have documented a key decision related to how it gains assurance over the publicly reported transaction-specific data. Section 13(3) of the Federal Reserve Act and section 4026 of the CARES Act both require the Board to report to Congress every 30 days on its CARES Act lending programs, and internal control standards highlight the importance of establishing and documenting policies and procedures and communicating them to personnel. The Board established processes for fulfilling its CARES Act reporting requirements in a compressed timeframe. Routinely updating the documented CARES Act collection, aggregation, validation, and reporting processes and associated key decisions helps the Board mitigate the loss of institutional knowledge if a key person leaves the agency, facilitates the transition of new employees into lending program roles, and sets the Board up to quickly establish processes for reporting if similar circumstances arise in the future.

The Board Meets Its 30-Day Reporting Requirements, Voluntarily Provides Transaction-Specific Data for Some Lending Programs, and Has Complete and Materially Accurate Data

On March 30, 2020, the Board began publicly reporting CARES Act lending program data in accordance with section 13(3) of the Federal Reserve Act and section 4026 of the CARES Act for the initial lending programs within our scope that were established to address the COVID-19 pandemic: the PMCCF, the SMCCF, and the TALF. Similarly, as the additional CARES Act lending programs in our scope were established, the Board issued the required 30-day reports to Congress for them as well.

In addition, the Board voluntarily reported transaction-specific data to supplement the 30-day reports in a manner consistent with its stated commitment to transparency. As of October 2021, the Board was

publishing transaction-specific data for the PPPLF, the SMCCF, the TALF, and the MLF.⁸ The Board published transaction-specific data for the MSLP from August 2020 through April 2021; according to Board officials, the Board stopped publishing MSLP transaction-specific data because the MSLP ceased purchasing loans in January 2021 and ongoing updates could reveal nonpublic data about the status and financial condition of individual MSLP borrowers.

We tested the Board's publicly reported transaction-specific data for its April 12, 2021, public reporting submission for the SMCCF and its February 9, 2021, public reporting submission for the MSLP.⁹ Our testing identified that all 1,830 MSLP records and all 1,223 SMCCF records were complete.

We also found that the SMCCF data were accurate. The MSLP data were generally accurate; however, we identified some immaterial inaccuracies.¹⁰ Specifically, we identified imprecisions in the following areas:

- Customer data: We reported in April 2021 that there were 43 inaccurate borrower city or state entries, such as invalid city and state combinations, misspellings, and other inaccuracies.¹¹ These items generally resulted from lender input error, character input limits in a system involved in loan data entry, or manual intervention by Federal Reserve Bank of Boston personnel. Because of the circumstances associated with establishing the lending programs, the Reserve Banks quickly developed and implemented their reporting practices. The Board and the Reserve Banks have been responsive in addressing these customer data issues that we have brought to their attention; the March 2021 and April 2021 30-day reports include corrections of the inaccuracies in the transaction-specific data.
- Interest rates: According to Reserve Bank staff, some reported interest rates vary slightly from the actual interest rate because lenders used different dates for calculating the underlying London interbank offered rate (LIBOR).¹² According to Reserve Bank staff, in the absence of a standardized approach, some lenders calculated the LIBOR using the loan's origination date, and others used the loan's funding date. The different approaches led to immaterial differences in the interest rate reported and the actual interest rate on the loan. According to Reserve Bank staff, the Federal Reserve Bank of Boston is resolving the discrepancy prior to the repayment of the loans.

⁸ As of September 30, 2021, the total outstanding amount of the Federal Reserve Bank of New York's loans under the PMCCF and the SMCCF was \$0. Therefore, the October 2021 30-day report was the final report with SMCCF loans.

⁹ We excluded the other CARES Act lending programs from reliability testing because these lending programs had no active loans, had limited users, were subject to other independent oversight, or were established during the 2008 financial crisis.

¹⁰ We concluded that the inaccuracies were immaterial because the customer data were not financial information. Further, we confirmed that the differences in the London interbank offered rate, or LIBOR, were minimal and, in our opinion, insignificant in terms of the reported financial information.

¹¹ Office of Inspector General, [*Results of Analytical Testing of the Board's Publicly Reported Data for the Main Street Lending Program*](#), April 14, 2021.

¹² LIBOR is the average interest rate at which major global banks borrow from one another and is used as the basis for many financial products, including MSLP loans.

The Board Has Documented Its Processes to Meet CARES Act Reporting Requirements but Did Not Document a Key Decision

RBOPS and the Legal Division have documented processes for collecting, aggregating, validating, and reporting CARES Act lending program data; however, they did not document a key decision related to validating transaction-specific data.

- Data collection and aggregation processes: During the initial design of the CARES Act lending programs, the Legal Division developed templates for the Reserve Banks to complete for transmitting CARES Act data to the Board during each 30-day reporting period. The templates enhance consistency across CARES Act lending programs while allowing for customization based on each individual CARES Act facility’s specific terms, structure, and features.
- Data validation processes: RBOPS has documented its processes for obtaining assurance over the aggregate-level data but has not documented its decision to rely on Reserve Bank internal controls to gain assurance over the transaction-specific data.
 - Aggregate-level data: RBOPS documented the division’s process for validating the CARES Act lending programs’ 30-day report aggregate data in an internal procedure. According to an RBOPS official, relevant section members can access the document on the division’s network drive.
 - Transaction-specific data: Conversely, RBOPS has not documented a key decision related to gaining assurance for the publicly reported transaction-specific data. RBOPS has determined that it is comfortable relying on Reserve Bank controls to ensure the accuracy and completeness of publicly reported transaction-specific data; however, RBOPS has not documented its rationale for this determination.
- Data reporting processes: The Legal Division has documented its processes for collecting, reviewing, and distributing the 30-day reports. According to a Legal Division official, all division staff who are involved in preparing the CARES Act reports have access to the document on a division intranet site. A Legal Division official also clarified that the procedures are a living document that will be updated over time as changes are made to the reporting process. For example, the procedures were updated when the Board decided to report on a fixed date each month rather than every 30 days, to ensure more consistent and predictable reporting across months.¹³ The Legal Division stated that it plans to finalize the document when the CARES Act reporting process has concluded.

The U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government* and the Committee of Sponsoring Organizations of the Treadway Commission’s *Internal Control—Integrated Framework* highlight the importance of establishing policies and procedures, integrating them

¹³ During the course of our audit, the Board determined that the requirement under section 13(3)(C)(ii) for a report “once every 30 days” was intended as a monthly reporting requirement. In May 2021, the Board chair approved a new schedule for providing the reports to the House and Senate committees: 30-day reports are issued on the 10th calendar day of each month or, if the 10th calendar day of a month is not a business day, the next business day after the 10th.

into the organization's operations, and communicating necessary information and rationale to personnel. The U.S. Government Accountability Office's guidance also notes that policies and procedures help ensure that staff can implement the activities for their assigned responsibilities.

Given the circumstances, the Board quickly established processes for fulfilling its CARES Act reporting requirements. Documenting its processes and key decisions for collecting, aggregating, validating, and reporting CARES Act data helps the Board prevent against the loss of institutional knowledge if a key person leaves the agency. Similarly, documenting its processes allows for Board staff newly assigned to work on the Board's CARES Act lending programs to quickly come up to speed. Routinely updating the process documentation to reflect practices and key decisions, such as the determination to use different processes to validate aggregate and transaction-specific data, may help the Board quickly establish processes for reporting on lending programs should similar circumstances arise in the future.

Recommendation

We recommend that the director of RBOPS, in consultation with the general counsel,

1. Document the key decision to rely on Reserve Bank internal controls to gain assurance over publicly reported transaction-specific CARES Act data, as well as the rationale for that decision.

Management Response

In response to our draft report, the director of RBOPS and the general counsel concur with this recommendation. On January 5, 2022, RBOPS, in conjunction with the Legal Division, documented its key decision to rely on internal controls to gain assurance over publicly reported transaction-specific CARES Act data in a memorandum to file. In this memorandum, the Board concluded that information on Reserve Bank processes and internal controls obtained from oversight and monitoring activities, in combination with review procedures performed by Board staff, provide reasonable assurance of the accuracy of the information provided by the Reserve Banks for use in preparing the 30-day reports.

OIG Comment

We have reviewed the January 5, 2022, memorandum the Board prepared in response to recommendation 1. We are closing recommendation 1 upon issuance of this report based on the actions taken.



Finding 2: The Board Can Enhance Its Discretionary Reporting

The Board's decision to publish transaction-specific data exceeded its statutory requirements to report aggregate-level data on the lending programs. We identified four opportunities for the Board to enhance its reporting of discretionary data that may help improve transparency and reduce the risk of reporting inaccuracies. The Board has a long-term strategic objective to increase the public's understanding of the Board's activities, as established in its *Strategic Plan 2020–23*. We believe these improvement opportunities arose from the Board's need to act quickly to meet its reporting requirements. Documenting and acting on these opportunities can help the Board quickly establish processes for reporting on lending programs under similar future circumstances and increase the public's understanding of Board-reported data related to its programs and other discretionary disclosures of data.

The Board Can Enhance Ongoing and Future Discretionary Disclosures of Data

The Board exceeded its statutory obligations by publishing transaction-specific data. During the course of our audit, we identified four improvement opportunities that would help the Board to enhance the public's understanding of the published discretionary data (table 1). Although the current lending facility program operations have ceased purchases, we believe that the Board's consideration of these opportunities can be applied in similar future circumstances in which public reporting is necessary and for any new CARES Act reporting.

Table 1. Opportunities to Enhance CARES Act Reporting and Other Discretionary Disclosures of Data

CARES Act reporting issue	Opportunity
<p>Reporting losses: The circumstances surrounding the Board’s reporting of a \$4 million actual loss to the MSLP—which occurred prior to the loan’s repayment phase—is described in a footnote to the report.^a Specifically, the June 2021 30-day report states that “the Board continues to expect that the MSLP will not result in losses to the Federal Reserve.” Directly following this statement is a footnote identifying that the program established a \$2.7 billion loan loss reserve in April 2021 to guard against potential losses experienced by the program. The footnote in the Board’s 30-day report mentions that as of May 31, 2021, the MSLP has recognized approximately \$4 million in an actual loss. To increase the public’s understanding of the circumstances surrounding this loss, the Board could have included this information in the body of the report and further explained which entity absorbed the loss and whether the loss had any bearing on the potential for additional future defaults.</p>	<p>Ensure that data disclosures are clear and designed to increase the public’s overall understanding of the Board’s activities.</p>
<p>Disclosing changes in reporting: When the Board stopped publishing transaction-specific data for the MSLP in April 2021, it disclosed the change in the May 30-day report but not on the Board’s public website where those spreadsheets are posted. More clearly disclosing such reporting changes will help to ensure that users understand that the changes are intentional rather than the result of an oversight in posting the data.</p>	
<p>Presenting partially redeemed or matured bonds: In July 2021, we reported on opportunities to enhance the clarity and transparency of publicly reported SMCCF transaction disclosure data. Specifically, while there were no inaccuracies in the Board’s public reporting, the presentation of partially redeemed bonds during the reporting period could have been interpreted as duplicate records, and the presentation of several redemptions included duplicate records. In July 2021, the Board and Federal Reserve Bank of New York addressed this finding by updating how they present publicly reported SMCCF transaction-specific data.^b</p>	

CARES Act reporting issue

Opportunity

Some of the CARES Act lending program publicly reported data are populated from third-party administrator information systems. The Board relies on third-party administrators or lenders to enter customer data, such as names and location information, and the Board does not review the third-party customer data for accuracy. The Board corrected the inaccuracies we identified; however, if the public is not provided any information on the data source or the Board's decision not to review the data, users who identify errors in customer data may question the accuracy of other Board data.

Clearly convey known limitations to enhance the public's understanding of the data.

Further, disclosing known data discrepancies, such as the immaterial discrepancies in reported interest rates as identified in finding 1, could also help users evaluate the data's usefulness. Neither the 30-day report nor the public website describes known discrepancies in the reported transaction-specific CARES Act data.

We used data analytics to identify (1) invalid city-state combinations (for example, New York, DC), (2) misspellings, and (3) inaccuracies based on OIG research and analysis.^c While these discrepancies in the supplemental data have been corrected and are not financially material, periodic data analytics testing conducted by the Board or the Reserve Banks may have identified the inaccuracies earlier.

Consider implementing controls to detect nonfinancial discrepancies in the data.

By August 2021, all lending programs ceased lending activities, and Board officials have stated that they do not plan to provide additional information to supplement the ongoing 30-day reports. The Board can continue to enhance public transparency by expanding its CARES Act reporting, such as by reporting portfolio management data. Examples of portfolio management data could include information on the percentage of loans that are being repaid according to the terms of the loans, as well as the average number of days that nonperforming loans are past due.

Consider adjusting discretionary disclosures as programs evolve.

Source: OIG analysis of Board and Reserve Bank documents and interviews.

^a According to the MSLP term sheets, loans purchased by the program have a deferred principal payment for 2 years and a deferred interest payment for 1 year. The first loan was purchased by the program on July 15, 2020, and therefore none had entered the repayment period as of the June 2021 30-day report.

^b Office of Inspector General, [Results of Analytical Testing of the Board's Publicly Reported Data for the Secondary Market Corporate Credit Facility](#), July 14, 2021.

^c Office of Inspector General, [Results of Analytical Testing of the Board's Publicly Reported Data for the Main Street Lending Program](#), April 14, 2021.

The likelihood that the Board will make future discretionary data disclosures is supported by the Board's *Strategic Plan 2020–23*. Specifically, the plan includes a goal to promote broader, ongoing engagement with external individuals and groups and improved understanding of the Board's mission through outreach and public engagement. To meet this goal, the Board has an objective to expand communication and outreach efforts with the public to increase transparency and understanding of its mission and activities and to better inform their decisions. One way in which the Board identifies that this objective can be achieved is through producing content tailored to meet the interests and needs of a wide variety of audiences.

The Board worked quickly to establish processes for fulfilling its CARES Act reporting requirements. In addition to reporting every 30-days on the aggregate-level data, the Board opted to include supplemental transaction-specific data for some facilities. Under these conditions, System officials were focused more on ensuring financial accuracy for the reported data than on the accuracy of nonfinancial data.

Documenting these and any other System-identified improvement opportunities related to the Board's CARES Act lending program reporting may help the Board when similar future circumstances arise. For example, Board officials explained that the Board had some lessons learned documented from the 2008 financial crisis, which, supplemented with institutional knowledge, helped the Board establish the CARES Act lending programs. In addition, addressing these improvement opportunities may help the Board meet its transparency goal and enhance the public's understanding of the discretionary data.

Recommendation

We recommend that the director of RBOPS and the general counsel

2. Identify and document learning opportunities from the CARES Act reporting experience so that they may be used by the Board when future exigent circumstances arise.

Management Response

In its response to our draft report, the director of RBOPS and the general counsel concur with our recommendation. They state that RBOPS and the Legal Division, in consultation with applicable Reserve Banks, have implemented enhancements to the reporting function. They further state that the Board will continue to review the CARES Act facilities reporting function for opportunities to improve, including examining whether these lessons learned can be documented and applied to similar reporting initiatives in the future. The Board anticipates that it will document final lessons learned by the end of calendar year 2022.

OIG Comment

The planned and completed actions described by the Board appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Appendix A: Scope and Methodology

Our objective was to assess the Board’s processes for collecting, aggregating, validating, and reporting data related to its CARES Act lending programs. The scope of our audit focused on the Board’s internal controls over the data provided by the Federal Reserve Banks of Boston, Minneapolis, and New York; Board processes for ensuring that the data are accurate and complete; and compliance with the relevant reporting requirements. The programs in our scope were the MSLP, the PPPLF, the PMCCF, the SMCCF, the MLF, and the TALF.

To accomplish our objective, we reviewed applicable laws, 30-day reports on the lending programs and associated transaction-specific data, and Board and Reserve Bank documentation on key processes. We also interviewed officials from the Legal Division; RBOPS; and the Federal Reserve Banks of Boston, New York, and Minneapolis.

To assess the Board’s processes for collecting and aggregating CARES Act lending program data, we interviewed Board officials. We corroborated this information with statements from Reserve Bank officials. We also reviewed a completed 30-day report template sent from a Reserve Bank to the Board.

To assess the Board’s processes for validating CARES Act lending program data, we interviewed RBOPS officials. Additionally, RBOPS provided us with a walk-through of the process for validating the aggregate-level data for 1 month. We interviewed officials from the Board and the Federal Reserve Banks of Boston, New York, and Minneapolis to determine the processes used to validate MSLP, SMCCF, and PPPLF transaction-specific data. In addition, we conducted data reliability testing on transaction-specific data by comparing public data to source data from the relevant information systems supporting the April 2021 30-day report for the SMCCF and the February 2021 30-day report for the MSLP. The data in the 30-day reports include transactions that occurred over the course of the lending facilities’ activity; therefore, the 1 month of data tested included prior MSLP transactions or existing SMCCF holdings for that lending facility. We excluded the other CARES Act lending programs from reliability testing because these lending programs had no active loans, had limited users, were subject to other independent oversight, or were established during the 2008 financial crisis.

To assess the Board’s processes for reporting CARES Act lending program data, we reviewed applicable laws, coordinated with Legal Division officials on the Board’s statutory reporting requirements in section 4026 of the CARES Act and section 13(3) of the Federal Reserve Act, and assessed the Board’s compliance with those requirements for 30-day reports issued from March 2020 through August 2021. In addition, to supplement the Board’s testimonial description of its processes for reviewing the 30-day reports, we reviewed internal communications for the December 2020 30-day report evidencing that all aggregate lending program data received appropriate reviews and approvals prior to the Board sending the 30-day report to Congress and making the information publicly available.

Auditing standards require that we assess internal controls significant to our audit objective. Accordingly, we assessed certain internal controls related to the Board’s collection, aggregation, validation, and reporting processes for CARES Act lending program data. Our assessment included reviewing laws and Board policies and procedures applicable to the Board’s processes for collecting, aggregating, validating,

and reporting CARES Act lending program data. We also assessed the effectiveness of these controls by testing public reports against legal requirements and reviewing a re-creation of key processes, including (1) an internal review of a 30-day report and (2) a walk-through observing a Board official conducting data validation for aggregate-level data in one 30-day report. The results of our assessment are in the body of this report.

We conducted this performance audit from October 2020 to November 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



Appendix B: The Reserve Banks' CARES Act Data Collection and Aggregation Processes

To meet the 30-day reporting requirements, each of the Reserve Banks established processes for collecting and aggregating their respective CARES Act lending program data (table B-1).

Table B-1. CARES Act Lending Program Data Collection and Aggregation Processes

Process	Federal Reserve Bank of Boston (MSLP)	Federal Reserve Bank of New York (PMCCF, SMCCF, TALF, MLF)	Federal Reserve Bank of Minneapolis (PPPLF)
Data collection	<p>Participating lenders enter loan updates and payment information into the MSLP lender portal. The third-party accounting administrator processes the loan updates and payment information.</p> <p>MSLP staff consolidate the third-party loan data into the Reserve Bank's general ledger.</p>	<p>Upon completion of a transaction, the third-party administrators collect CARES Act lending program data and transfer the data electronically to the Reserve Bank.</p> <p>Reserve Bank accounting staff enter the accounting data received from the third-party administrators into the Reserve Bank's general ledger. A different staff member reviews and approves this information.</p>	<p>Each Reserve Bank collects PPPLF loan data directly from the lenders and enters the data directly into the System lending application. Reserve Bank staff review, verify, and approve the data.</p> <p>The lending application automatically transfers CARES Act lending program data into the general ledger of each Reserve Bank following the end-of-day reconciliation process performed by each Reserve Bank.</p>
Data aggregation	<p>MSLP staff populate templates provided by the Legal Division for the aggregate-level 30-day and transaction-specific reports using the data from the third-party accounting administrator.^a</p>	<p>Reserve Bank accounting and operations staff populate templates provided by the Legal Division for the aggregate-level 30-day and transaction-specific reports using general ledger, collateral, and transaction-specific data.</p>	<p>A central data team supporting the PPPLF obtains the data by querying the Systemwide application for lending transactions. The central data team populates templates provided by the Legal Division for the aggregate-level 30-day and the transaction-specific report.</p>

Process	Federal Reserve Bank of Boston (MSLP)	Federal Reserve Bank of New York (PMCCF, SMCCE, TALF, MLF)	Federal Reserve Bank of Minneapolis (PPPLF)
	MSLP staff reconcile the data in the aggregate-level 30-day report template to the Federal Reserve Bank of Boston’s general ledger. The information is reviewed and approved by one or more MSLP staff members.	A different staff member reviews and approves this information.	Reserve Bank staff verify transaction-level data against the general ledger. Two or more Reserve Bank staff members review and approve the information.
	MSLP staff email the CARES Act lending program data to Board staff.	Reserve Bank accounting and operations staff upload the CARES Act lending program data to a secured site that Board staff can access. Reserve Bank staff notify Board staff about the upload via email.	Reserve Bank staff email the aggregate-level and transaction-level data to Board staff.

Source: OIG analysis of Board and Reserve Bank documents and interviews.

^a The Board published transaction-specific data for the MSLP from August 2020 through April 2021.

In addition to the established processes for collecting and aggregating data for each CARES Act lending program, general auditors in each Reserve Bank oversee Reserve Bank operations. Their ongoing oversight covers lending facility activities and internal controls over the systems used to process, transfer, and store lending program data.

Appendix C: Management Response



**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551**

February 1, 2022

Cynthia Gray
Assistant Inspector General
for Audits and Evaluations
Board of Governors
of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington D.C., 20551

Dear Ms. Gray:

Thank you for the opportunity to comment on your draft report, *The Board Has Effective Processes to Collect, Aggregate, Validate, and Report CARES Act Lending Program Data*. We appreciate the effort that the Office of Inspector General (“OIG”) has put into this report and the recommendations it has provided for enhancing the efficiency and effectiveness of the Board’s reporting of emergency lending facility data. The report found that the Board complied with provisions of section 13(3) of the Federal Reserve Act and section 4026 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act that require the Board to provide to Congress and the public certain information about the operation of emergency facilities established under those authorities. The evaluation also noted that the Board exceeded applicable statutory reporting requirements by providing transaction-level disclosures, and it identified certain opportunities where the Board could enhance its facility reporting function.

The Division of Reserve Bank Operations and Payment Systems (“RBOPS”) and the Legal Division agree with the conclusions in the report and have already begun to document key decisions and learning opportunities from the CARES Act facilities reporting function.

In the report, the OIG makes the following two recommendations:

1. *Document the key decision to rely on Reserve Bank internal controls to gain assurance over publicly reported transaction-specific CARES Act data, as well as the rationale for that decision.*

Management Response 1: We concur with this recommendation. RBOPS, in conjunction with the Legal Division, documented in a memo to files¹ their conclusion that information on Reserve Bank processes and internal controls obtained from oversight and monitoring activities, in combination with review procedures

¹ The memo to file was dated January 5, 2022, and it was provided to your office on January 10, 2022.

performed by Board staff, provided reasonable assurance as to the accuracy of the information provided by Reserve Banks for use in preparing the periodic reports to Congress.

2. *Identify and document learning opportunities from the CARES Act reporting experience so that they may be used by the Board when future exigent circumstances arise.*

Management Response 2: We concur with this recommendation. The Legal Division and RBOPS, in consultation with applicable Reserve Banks, have assessed and will continue to review the CARES Act facilities reporting function for opportunities to improve efficiency, transparency, and accountability. This process includes examining whether lessons learned from the CARES Act facilities reporting experience can be documented and applied to similar reporting initiatives should the Federal Reserve establish emergency lending facilities in the future. The divisions anticipate meeting with relevant stakeholders to discuss and document final lessons learned by the end of calendar year 2022.

This self-evaluation has already resulted in several enhancements to the reporting function that are anticipated to be carried forward to future emergency facility reporting initiatives. For example, several of the CARES Act facilities were established and became operational on different dates, which resulted in reports being produced throughout a calendar month. To promote public understanding of the CARES Act facilities as a whole, the Board issued interim reports to synchronize disclosures for all CARES Act facilities.

Separately, the Legal Division and RBOPS worked with Reserve Bank facility teams to develop periodic reporting templates for each facility subject to the Federal Reserve's enhanced disclosure framework. Templates were customized based on each individual facility's specific terms, structure, and features. In some cases, facility templates were revised over time based on changes to the facility's terms or activities or feedback from members of Congress, the public, auditors, or other stakeholders. This ongoing review enhanced reporting transparency and consistency across CARES Act facilities. The above decisions have been documented in a location that relevant staff can access for future reference.

Regards,



Matthew J. Eichner
Director
Division of Reserve Bank Operations
and Payment Systems



Mark Van Der Weide
General Counsel
Legal Division



Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
LIBOR	London interbank offered rate
MLF	Municipal Lending Facility
MSLP	Main Street Lending Program
PMCCF	Primary Market Corporate Credit Facility
PPPLF	Paycheck Protection Program Liquidity Facility
RBOPS	Division of Reserve Bank Operations and Payment Systems
SMCCF	Secondary Market Corporate Credit Facility
TALF	Term Asset-Backed Securities Loan Facility

Report Contributors

La' Toya Holt, Senior Auditor
Monica Cook, Forensic Auditor
Melissa Dorow, Auditor
Alain Habimana, Auditor
Joe Hackett, Auditor
Eric Shapiro, Auditor
Victor Calderon, OIG Manager for Data Analytics
Megan Taylor, OIG Manager, Financial Management and Internal Controls
Jackie Ogle, Senior OIG Manager for Financial Management and Internal Controls
Cynthia Gray, Assistant Inspector General for Audits and Evaluations
Michael VanHuysen, Associate Inspector General for Audits and Evaluations

Contact Information

General

Office of Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551

Phone: 202-973-5000

Fax: 202-973-5044

Media and Congressional

OIG.Media@frb.gov



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Washington, DC 20551

Phone: 800-827-3340

Fax: 202-973-5044