



OFFICE OF INSPECTOR GENERAL

Audit Report

2014-IT-B-018

The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program

October 30, 2014

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

Report Contributors

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Abbreviations

Board	Board of Governors of the Federal Reserve System
COOP	continuity of operations program
Division of IT	Division of Information Technology
FCD-1	Federal Continuity Directive 1
ICCP	Intelligence Coordination and Continuity Programs unit
IT	information technology
NSPD 51/HSPD-20	National Security Presidential Directive-51/Homeland Security Presidential Directive-20, <i>Federal Executive Branch Continuity of Operations (COOP)</i>



Executive Summary:

The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program

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Purpose

Our objectives were to evaluate the contingency planning and continuity of operations program (COOP) of the Board of Governors of the Federal Reserve System (Board) to ensure that the Board's contingency planning and COOP provide a coordinated strategy involving plans, procedures, and technical measures that enable the recovery of information systems, operations, and data after a disruption. In addition, we reviewed COOP-related costs in an effort to identify potential cost savings.

Background

The purpose of the Board's COOP is to ensure the continuous operation of critical missions and essential functions in any emergency. It implements emergency management policy, identifies emergency management responsibilities, and specifies procedures for the development and implementation of timely emergency responses. The COOP is vital to the Board's ability to resume operations in the event of a disaster.

The Management Division's Intelligence Coordination and Continuity Programs Unit (ICCP) manages the Board's COOP, which entails coordination with all of the Board's divisions in the development of their division-specific COOPs and combining those COOPs with the Board's enterprise-level COOP. In addition, the ICCP also coordinates the leasing of the alternate work site in conjunction with the Space Planning unit. (During our audit, in January 2014 the ICCP was reorganized and renamed the Intelligence and Resiliency Program)

Findings

Overall, we found that the Board has developed a strategy and taken a number of actions to ensure the continuous operation of critical missions and essential functions in any emergency. The Board has developed a COOP that implements emergency management policy, identifies emergency management responsibilities, and specifies procedures for the development and implementation of timely emergency responses. The Board also has dedicated COOP personnel and secured a well-equipped alternate work site.

Our audit identified areas in which the Board could improve its program in order to better ensure the timely recovery of Mission-essential Functions and systems. Specifically, we identified that the Board's ability to perform its mission during an emergency may be affected by (1) the lack of centralized governance for the Board's COOP and (2) several critical components that are missing from the Board's COOP. We also identified three areas for management consideration related to lodging of relocated Board staff, accounting for COOP-related costs, and analyzing leasing costs for the Board's contingency site.

Recommendations

Our report includes four recommendations that focus on strengthening the Board's ability to perform its Mission-essential Functions during an emergency. We recommend that the Director of the Management Division develop strategies to implement across the Board's divisions all the necessary aspects of the Board's COOP. We also recommend that the Director develop a Test, Training, and Exercise program; a reconstitution plan; and a devolution plan for the Board's COOP, in accordance with the guidance provided in Federal Continuity Directive 1.

We further recommend that the Director perform a comprehensive Business Process Analysis to identify and prioritize all the inputs and outputs that are necessary to perform the Board's Mission-essential Functions and ensure that the Board's COOP plans correctly reflect all activities, inputs and outputs, and systems that are required for the Board to resume its Mission-essential Functions. We also include matters for management consideration related to living space and COOP-related costs.

In its response to our draft report, management outlined actions that have been or will be taken to address our recommendations.

Summary of Recommendations, OIG Report No. 2014-IT-B-018

Rec. no.	Report page no.	Recommendation	Responsible office
1	5	Develop strategies to implement across the Board's divisions all the necessary aspects of the Board's continuity of operations program.	Management Division
2	10	Develop a Test, Training, and Exercise program, a reconstitution plan, and a devolution plan for the Board's continuity of operations program, in accordance with the guidance provided in Federal Continuity Directive 1.	Management Division
3	10	Perform a comprehensive Business Process Analysis to identify and prioritize all the inputs and outputs that are necessary to perform the Board's Mission-essential Functions.	Management Division
4	10	Ensure that the Board's Volume I and II continuity of operations programs correctly reflect all activities, inputs and outputs, and systems that are required for the Board to resume its Mission-essential Functions.	Management Division



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
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October 30, 2014

MEMORANDUM

TO: Michell Clark
Director, Management Division
Board of Governors of the Federal Reserve System

FROM: Andrew Patchan Jr. *Andrew Patchan Jr.*
Associate Inspector General for Information Technology

SUBJECT: OIG Report No. 2014-IT-B-018: *The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program*

The Office of Inspector General has completed its final report on the subject audit. Our objectives were to evaluate the contingency planning and continuity of operations program of the Board of Governors of the Federal Reserve System (Board) to ensure that the Board's contingency planning and continuity of operations program provide a coordinated strategy involving plans, procedures, and technical measures that enable the recovery of information systems, operations, and data after a disruption.

We provided you with a draft of our report for review and comment. In your response, you outlined actions that have been or will be taken to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from the Management Division, the Division of Information Technology, and the other Board Divisions that supported this effort. Please contact me if you would like to discuss this report or any related issues.

cc: Donald Hammond
David Capp
Sharon Mowry
William Mitchell
Ann Buckingham
J. Anthony Ogden
Matt Simber

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Introduction

Objectives

Our objectives were to evaluate the contingency planning and continuity of operations program (COOP) of the Board of Governors of the Federal Reserve System (Board) to ensure that the Board's contingency planning and COOP provide a coordinated strategy involving plans, procedures, and technical measures that enable the recovery of information systems, operations, and data after a disruption. In addition, we reviewed COOP-related costs in an effort to identify potential cost savings.

To accomplish our objectives, we reviewed federal government guidance and Board procedures for responding to emergency events; we interviewed Board continuity personnel; and we reviewed the Board's enterprise-level COOPs, the division-level COOPs, as well as COOP-related costs. In addition, we visited the Board's alternate work site to evaluate the relocation facility. Additional details on our scope and methodology are discussed in appendix A.

Background

The Board's mission is to provide our nation with a safe, flexible, and stable monetary and financial system. Therefore, it is imperative that the Board maintains the capability to perform its mission with minimal or no interruption during emergencies that could otherwise threaten Board operations, personnel, infrastructure, information systems, or other vital assets.

The Board's COOP is a critical component of the Board's strategy to ensure the continuous operation of critical missions and essential functions in any emergency. It implements emergency management policy, identifies emergency management responsibilities, and specifies procedures for the development and implementation of timely emergency responses.

The Board's COOP serves three interrelated purposes:

1. to apply accepted best practices of business continuity planning
2. to comply with federal guidance in National Security Presidential Directive-51/Homeland Security Presidential Directive-20, *Federal Executive Branch Continuity of Operations (COOP)* (NSPD 51/HSPD-20)
3. to meet the crisis management objectives set by the Federal Reserve Banks' Conference of Presidents, as listed below:
 - ensure the safety of Federal Reserve staff
 - support the continued functioning of the U.S. financial system
 - maintain, or where necessary restore, the stability of the financial system infrastructure (especially the payment system) and the major institutions that make up the U.S. financial system
 - maintain public confidence in financial markets and institutions

Federal COOP Guidance

The Board's COOP was established as a result of a 1998 presidential decision directive that outlined a federal governmentwide initiative to ensure the performance of Mission-essential Functions under a wide range of circumstances. Mission-essential Functions are the organization-level government functions that must be continued throughout, or resumed rapidly after, a disruption of normal activities. Subsequent to the 1998 presidential decision directive, the following guidance documents have been issued to assist agencies in establishing a COOP:

- National Security and Homeland Security Presidential Directive (NSPD 51/HSPD-20), *National Continuity Policy*, May 2007
- Federal Continuity Directive 1, *Federal Executive Branch National Continuity Program and Requirements*, February 2008
- Federal Continuity Directive 1 (FCD-1), *Federal Executive Branch National Continuity Program and Requirements*, October 2012¹
- U.S. Department of Homeland Security, Federal Emergency Management Agency, Continuity Guidance Circular, *Continuity Guidance for Non-Federal Governments (States, Territories, Tribal, and Local Government Jurisdictions)*, July 2013
- U.S. Department of Homeland Security, Federal Emergency Management Agency, Federal Preparedness Circular 65, *Federal Executive Branch Continuity of Operations (COOP)*, June 2004
- National Institute of Standards and Technology, Special Publication 800-34, *Contingency Planning Guide for Federal Information Systems*, May 2010

FCD-1 provides procedural guidance to executive branch agencies on specific steps and actions needed to establish a viable COOP in alignment with NSPD 51/HSPD-20. As a part of this guidance, FCD-1 lays out a step-by-step process for establishing a COOP and provides guidance on the vital elements of a COOP. This guidance includes the process for identifying Mission-essential Functions for an organization and the necessary components of a COOP, which include Test, Training, and Exercise. Although the Board is not required to comply with FCD-1, the Board has voluntarily used it as a framework in the development of its COOP. In addition, the Board identifies compliance with NSPD 51/HSPD-20 as one of the interrelated purposes of its COOP.

1. The 2012 update to FCD-1 provided new policies and clarifications to existing policies.

The Board's COOP Structure

Numerous stakeholders are responsible for critical functions of the Board's COOP, as follows:

- The Management Division's Intelligence Coordination and Continuity Programs unit (ICCP) is primarily responsible for the coordination and administration of the Board's COOP and contingency site. (During our audit, in January 2014 the ICCP was reorganized and renamed the Intelligence and Resiliency Program)
- The Management Division's Space Planning unit is responsible for managing leasing agreements for the Board's alternate work site and the subtenant agencies that rent contingency space at the alternate work site.
- The Division of Information Technology (Division of IT) is responsible for the resumption of critical Board systems in a timely manner.
- All Board divisions are responsible for ensuring that their Mission-essential Functions are identified in their applicable COOPs, that their COOPs facilitate resumption of these functions, and that their personnel are aware of their COOP roles and responsibilities.

The Board's COOP is organized into three sections:

1. Volume I—Basic Plan
2. Volume II—Division Plans
3. Volume III—Supporting Documents

Volume I—Basic Plan is the umbrella document that establishes, at the enterprise level, the Board's crisis management structure, order of succession, and emergency delegations of authority. Volume II—Division Plans supplements Volume I and identifies for each division the critical business functions as well as the personnel, vital information, and other resources needed to perform those functions in emergencies. The supporting documents in Volume III include the *Board Relocation Guide*, the *Employee, Media and Interagency Communications Plan*, the *Board of Governors Deployment Strategy*, and the *Pandemic Influenza Annex*.

Each division is responsible for developing, approving, and maintaining its own Volume II COOP, and the ICCP developed and maintains Volume I—Basic COOP. The Volume II COOPs are independently owned and developed by each division by using document templates provided by the ICCP. These plans receive final approval and acceptance within each division. Volume II COOPs are critical to the operation of the Board in a continuity event, as they outline the necessary steps and actions each Board division plans to take to maintain critical functions in the event of a disaster in which the Volume I COOP is activated. The ICCP coordinates with the Board divisions in the development of their division-specific Volume II COOPs and combines the Volume II COOPs with the Board's enterprise-level basic Volume I COOP.

Finding 1: Lack of Coordination May Affect the Board's Ability to Perform Its Mission During an Emergency

The Board has taken steps to facilitate continued operations in the event of a disaster, such as developing a COOP, designating dedicated COOP personnel, and securing a well-equipped alternate work site; however, we found that the ICCP has not been able to enforce division participation in COOP-related activities. FCD-1 guidance notes that department and agency continuity coordinators are responsible for ensuring that continuity managers and planners are provided the necessary authority and are positioned at an appropriate level within the organization to effectively oversee the day-to-day management of their continuity program. In December 2013, the Board delegated responsibility for continuity of operations and business-resumption activities to the director of the Management Division through its Delegations of Administrative Authority; however the ICCP informed us that they have not been able to enforce division participation because of the decentralized governance structure for the Board's continuity program. We believe that this deficiency could impair the Board's ability to resume operations in an emergency. Without adequate, centralized governance, the Board cannot be assured that its continuity plan meets all of the requirements of a viable plan and that it can be successfully executed in an emergency.

The ICCP Cannot Ensure Division Participation in COOP-Related Activities

On December 20, 2013, the Board updated its Delegation of Administrative Authority. The Board's Chairman, who has authority under section 11(k) of the Federal Reserve Act to assign responsibility for performance of delegated functions, has selected one of the Board members to serve as the Board's administrative Governor, with authority to oversee day-to-day operations of the organization. The administrative Governor has delegated authority and responsibility for some of these operations to the Chief Operating Officer and to the Directors of the Board's offices and divisions. The Chief Operating Officer has delegated the responsibility and authority for continuity of operations and business-resumption activities to the Director of the Management Division through its Delegations of Administrative Authority. Within the Management Division, the ICCP is primarily responsible for the coordination and administration of the Board's COOP and contingency site; however ICCP staff members informed us that they have lacked the ability to enforce participation in COOP-related activities, such as Test, Training, and Exercise of the Board's COOP.

The ICCP has responsibilities for overseeing the Board's enterprise COOP program and primarily suggests to the divisions actions to take in developing and maintaining their subordinate COOP plans; it has not been able to require the divisions to take specific actions. We found, however, that 6 of the 12 divisions we interviewed did not believe that they received sufficient guidance in the development of their COOPs. Further, some division representatives cited inadequate governance in the Board's continuity program and expressed concerns about the viability of the Board's COOP in the event of an emergency.

Federal COOP guidance notes that department and agency continuity coordinators are responsible for ensuring that continuity managers and planners are provided the necessary authority and are positioned at an appropriate level within the organization to effectively oversee the day-to-day management of their continuity program. With the ICCP organizationally situated in the Management Division, the unit has not been able to oversee and implement an integrated continuity program that encompasses all Board divisions. As such, each division has developed its own COOP as part of the enterprise COOP, resulting in a decentralized continuity program that lacks central governance.

Recommendation

We recommend that the Director of the Management Division

1. Develop strategies to implement across the Board's divisions all the necessary aspects of the Board's COOP.

Management's Response

In response to recommendation 1, the Director of the Management Division stated that the Management Division has implemented a more collaborative approach to develop and implement continuity programs throughout the Board. Additionally, the Intelligence & Resiliency Programs personnel met individually with almost all of the division continuity representatives in February and March 2014 to talk with them about continuity programs and ways to improve IRP's support and increase collaboration.

OIG Comment

In our opinion, the actions described by the Director are responsive to our recommendation. We plan to follow up on the actions to ensure that the recommendation is fully addressed.

Finding 2: Deficiencies in the Board's COOP May Affect the Board's Ability to Perform Its Mission During an Emergency

We found that the Board's continuity program currently lacks several critical components of a viable COOP. Specifically; the Board's continuity program lacks a comprehensive Test, Training, and Exercise program; a reconstitution plan; and a devolution plan. In addition, we noted weaknesses in the Board's Business Process Analysis. These components are necessary to ensure that Board employees are aware of their roles and responsibilities; that the COOP can be successfully implemented in an emergency; and that the Board can return to its normal day-to-day operations, with staff roles and responsibilities transferring to new personnel if necessary.

The ICCP Has Not Fully Implemented a Test, Training, and Exercise Program

The Board has taken steps to prepare for emergencies and performs biannual contingency tests of its information systems in accordance with Federal Information Security Management Act of 2002 requirements. However, these biannual system tests do not fully meet the objectives of a Test, Training, and Exercise program as defined by FCD-1. These system tests do not involve all personnel with COOP roles and responsibilities, nor do they prepare personnel to execute the Board's COOP. These biannual tests focus on recovering information technology (IT) systems and do not assess the resumption of Board functions that must continue in an emergency. The Board has also engaged in governmentwide Eagle Horizon² tests of continuity programs; however, ICCP staff members cited inadequate participation from Board divisions in these tests. Board division staff members noted that these Eagle Horizon tests are unrealistic and do not adequately reflect scenarios that the Board could experience in an emergency.

A Test, Training, and Exercise program prepares personnel with continuity responsibilities by training them in their roles and responsibilities and testing their procedural knowledge through exercises and simulations that are meant to reflect scenarios that these personnel are likely to encounter in an emergency. Through a Test, Training, and Exercise program, leadership and staff learn the necessary skills for the procedures and tasks they must perform in executing continuity plans. Likewise, tests of continuity programs assess and validate all the components of continuity plans, policies, procedures, systems, and facilities to ensure that operations can be resumed in an emergency.

The ICCP noted that because it has not been able to ensure that divisions participated in Test, Training, and Exercise activities, it has been unable to fully implement a Test, Training, and Exercise program. ICCP staff members further noted that without voluntary participation and cooperation from the divisions, the ICCP is unable to conduct Boardwide training, tests, and exercises of the continuity program. ICCP staff members stated that they would like to perform

2. Eagle Horizon allows agencies and jurisdictions to ensure consistency across continuity plans, establish consistent performance matrixes, prioritize implementation plans, promulgate best practices, and facilitate consistent cross-agency continuity evaluations.

quarterly tabletop exercises of the Board's COOP; however, the historical lack of participation from Board divisions in COOP-related activities has been an obstacle to implementing these tests. Without a COOP Test, Training, and Exercise program and the proper level of participation in associated activities, the Board does not have assurance that the COOP can be executed successfully in a real emergency.

The Board Does Not Have a Reconstitution Plan

After our review of the enterprise COOP and further inquiry, ICCP staff members reported that they have a high-level concept of how a reconstitution plan for the Board would be carried out; however, the ICCP needs to take additional steps to develop and implement the necessary plan. Without a reconstitution plan in place, the Board may not be able to resume normal agency operations during or after a disaster in a timely manner.

Reconstitution plans outline the steps an organization will take to return to its normal operating environment and location. For example, a reconstitution plan will be activated after a disaster is over and the Board needs to resume day-to-day operations at a replacement facility indefinitely. Currently, the Board does not have a reconstitution plan in place.

According to FCD-1, reconstitution is the process by which surviving or replacement agency personnel resume normal agency operations from the original or replacement primary operating facility. Reconstitution embodies the ability of an agency to recover from an event that disrupts normal operations and consolidates the necessary resources so that the agency can resume its operations as a fully functional entity of the federal government. In some cases, if an agency suffers the complete loss of a facility or if collateral damage from a disaster renders a facility structure unsafe for reoccupation, extensive coordination may be necessary to procure a new operating facility. Agencies must identify and outline a plan to return to normal operations once agency heads or their successors determine that reconstitution operations for resuming normal business operations can be initiated.

The Board Does Not Have a Devolution Plan

After we reviewed the enterprise COOP and further inquired, ICCP staff members reported that they have a high-level concept of how a devolution plan for the Board would be carried out; however, the ICCP needs to take additional steps to develop and implement the necessary plan. Without a devolution plan in place, the Board may not be able to resume normal agency operations during or after a disaster in a timely manner.

Devolution plans outline the steps an organization will take should its personnel become incapacitated and are unable to continue to perform the organization's essential functions at the alternate work site. A devolution plan could be activated in the event Board personnel are completely incapacitated and responsibilities for Board functions must be transferred to alternate personnel. Currently, the Board does not have a devolution plan in place.

FCD-1 states that devolution planning supports overall continuity planning and addresses catastrophes that render an agency's leadership and key staff unavailable to or incapable of performing their essential functions from either the agency's primary or alternate facilities. A continuity plan should have a devolution option to address how an agency will identify and

transfer its essential functions or leadership authorities away from the primary facility or facilities to a location that offers a safe and secure environment in which essential functions can continue to be performed. The devolution option may be used when the agency's alternate facility is not available, or the option can be activated as a continuity measure.

Critical Applications and Recovery Time Objectives Are Inaccurately Identified

We noted inconsistencies in what are deemed to be critical IT applications. We identified several instances in which systems are identified as essential contingency systems on the Board's Federal Information Security Management Act of 2002 system inventory but are not listed on the divisions' Volume II COOPs. Similarly, some critical systems that are identified on divisions' Volume II COOPs are not listed on the Division of IT's Volume II COOP list of critical applications. The Board divisions rely on the Division of IT to restore their systems during a COOP event, and the Division of IT will only restore systems that are listed on its Volume II COOP. Failure of the Division of IT to restore systems that divisions have identified as critical could delay the resumption of the Board's Mission-essential Functions.

We also noted instances in which recovery time objectives, which designate how quickly systems need to be restored, are not consistent between the divisions' Volume II COOPs and the Division of IT's Volume II COOP. This inconsistency in required recovery times could result in systems not being appropriately prioritized for recovery by the Division of IT as well as delays in the resumption of Mission-essential Functions.

We found that the Board identified its primary Mission-essential Functions in Volume I COOP. In addition to the Board's Mission-essential Functions, each division has identified its own essential functions in its Volume II COOP. Through a review of documentation, we found that although Mission-essential Functions are identified in Volume I and Volume II, the ICCP did not perform a Business Process Analysis of the Board divisions' functions nor did it identify the specific inputs and outputs to Mission-essential Functions.

A Business Process Analysis is a thorough analysis of an organization to identify the inputs and outputs needed to perform the organization's Mission-essential Functions and to ensure that the organization's COOP addresses the continuation of all the organization's necessary activities. The specific inputs and outputs, including lower-level organizational functions and systems, that support Mission-essential Functions are to be identified and planned for in a COOP.

The Board has identified the following as its primary functions in its COOP:

1. Conduct the nation's monetary policy by influencing monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates.
2. Maintain the stability of the financial system and contain systemic risk in financial markets.
3. Supervise and regulate banking institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers.

4. Provide financial services to depository institutions, the U.S. government, and foreign official institutions, including playing a major role in operating the nation's payment system.

The Board must continue to perform these Mission-essential Functions during an emergency or disaster to fulfill its mission.

FCD-1 notes that all agencies are to identify and prioritize their essential functions as the foundation for continuity planning. As such, the agency should carefully review all of its missions and functions before determining those that are essential. Improperly identifying functions as essential or not identifying as essential those functions that are can impair the effectiveness of the entire continuity program, because other aspects of the plan are designed around supporting these functions. If an agency fails to identify a function as essential, that agency will not identify the requirements and resources needed to support that function in an emergency and will not make the necessary arrangements and coordination to perform that function. If an agency identifies too many functions as essential, the agency risks being unable to adequately address all of them.

As the first business process analysis step, FCD-1 further instructs agencies to outline each Mission-essential Function in a business process mapping format (i.e., inputs, outputs, resources, systems, facilities, expertise, and authorities) to identify elements that impact the ability to complete the Mission-essential Functions. A successful Business Process Analysis will identify gaps within a department or agency and areas in which more than one department or agency has responsibilities. This gap identification provides departments and agencies an opportunity to fill the gap and ensure successful execution of essential functions and preparation for incident management.

The Board's lack of a comprehensive Business Process Analysis is a direct result of the decentralized governance in the Board's continuity program, where each division has independently developed and approved its own COOP. Because business process mapping of division functions has not been done, the enterprise-level Mission-essential Functions are not directly tied to specific division critical functions and inputs and outputs or to interdependencies within divisions. This fragmented approach has resulted in inconsistencies in the prioritization of resources and gaps in the Board's continuity program.

Without a comprehensive Business Process Analysis and an enterprise-wide, integrated approach that addresses the identification and prioritization of inputs and outputs to Mission-essential Functions throughout the Board, the Board cannot be assured that the Volume I and II COOPs fully support the execution of all the Board's primary Mission-essential Functions. Further, the Board cannot be assured that the divisions' COOPs appropriately prioritize the essential functions, activities, and systems that are required to keep the Board functioning in an emergency. Without proper prioritization, the Board's limited emergency resources may not be optimally allocated, resulting in inefficiencies in the COOP and delays in the resumption and performance of the Board's Mission-essential Functions during an emergency.

Recommendations

We recommend that the Director of the Management Division

2. Develop a Test, Training, and Exercise program, a reconstitution plan, and a devolution plan for the Board's COOP, in accordance with the guidance provided in FCD-1.
3. Perform a comprehensive Business Process Analysis to identify and prioritize all the inputs and outputs that are necessary to perform the Board's Mission-essential Functions.
4. Ensure that the Board's Volume I and II COOPs correctly reflect all activities, inputs and outputs, and systems that are required for the Board to resume its Mission-essential Functions.

Management's Response

In response to recommendation 2, the Director of the Management Division stated that the Intelligence & Resiliency Programs personnel is currently in the process of completing a contract for the development of a continuity Test, Training, and Exercise program; and plans to begin development of both a reconstitution plan and a devolution plan in 2015.

In response to recommendation 3, the Director of the Management Division stated that the Intelligence & Resiliency Programs personnel has already begun the process to conduct a Business Process Analysis and Business Impact Analysis, and plan to complete the process in September 2015.

In response to recommendation 4, the Director of the Management Division stated that completing this recommendation is linked to the Management Division's response to recommendations 2 and 3, and this process is already underway.

OIG Comment

In our opinion, the actions described by the Director are responsive to our recommendation. We plan to follow up on the actions to ensure that the recommendation is fully addressed.

Other Matters for Management's Consideration

Hotel Contracts Do Not Guarantee Room Availability

We found that the Board's contracts with hotels near the alternate work site do not adequately ensure that rooms will be available to Board employees who need to relocate to the alternate work site. In the event the Board's COOP is activated, Board employees with COOP responsibilities are expected to relocate to the Board's alternate work site to support the performance of the Board's Mission-essential Functions. The Board's COOP assumes that these employees will live in hotel rooms near the alternate work site and may be accompanied by their families. As such, the Board has taken steps to identify specific hotels in the area within close proximity to the alternate work site and has established contractual arrangements with these hotels to provide rooms to Board personnel. These contracts, however, are largely symbolic.

The Board pays the hotels consideration of approximately \$1 per contract to establish an arrangement to provide housing for personnel. These contracts generally state that the hotels will agree to provide the Board with "all available rooms up to the Board's requirement upon notification from the Board that the contract is being enforced." However, these contracts do not ensure that rooms will be available; the contracts state that "as rooms occupied by hotel guests not affiliated with the Board are vacated, those rooms shall also be offered to the Board" until the Board's requirement is satisfied.

We were informed that these hotels generally maintain an 80 percent to 90 percent occupancy rate, which means that rooms may not be readily available for Board employees. Further, since the Board sublets space at its alternate work site to other agencies, the COOPs of these other agencies may direct their employees to relocate to the same alternate work site as the Board, potentially reducing further the amount of readily available hotel space.

FCD-1 notes that all agencies must identify and prepare alternate operating facilities as part of their COOPs and prepare their personnel for the possibility of unannounced relocation of essential functions or COOP personnel to these facilities. The Board has made efforts to secure hotel space through contracts with various hotels near the alternate work site; however, the Board did not ensure that these contracts will guarantee that rooms will be available for Board employees and their families. As such, sufficient and timely space may not be available for Board employees and their families during a COOP event, which may hinder the Board's ability to quickly resume operations in the event of a disaster and could delay the resumption of the Board's Mission-essential Functions.

We suggest that the Director of the Management Division assess other approaches to ensuring that living accommodations for critical Board employees and their families who are required to relocate to the alternate work site will be available.

In response to our observation, the Director of the Management Division stated that the division is not averse to researching other approaches to providing living arrangements for employees who are relocated to the alternative work site. In the near future, it will begin assessing residence alternatives for employees.

Board Divisions Do Not Use Specific Line Items or Accounting Codes to Track Board-Related COOP Costs

The Board does not separately identify COOP-related costs; therefore, data to identify potential areas for cost savings are not readily available. Further, without knowing the true costs of its COOP, there is a risk that the Board may not be allocating resources for COOP-related activities in the most efficient manner.

In April 2014, we provided initial observations to the Director of the Management Division related to tracking COOP-related costs. Specifically, we found that Board divisions do not separately identify their COOP-related costs. The majority of the divisions' COOP-related costs are accounted for in high-level IT budgets within the applicable division, with no separate line item or accounting code to break out the components that make up the COOP-related costs. In addition, divisions do not identify budget resources associated with semiannual contingency testing.

We also noted that the ICCP is divided into three functions (Contingency, Communications, and Intelligence Information & Analysis) but has only one cost center and does not separately identify costs for different COOP-related activities.

The Division of IT determines chargeback amounts for the Board divisions based on space needed and the hours associated with administering division-specific applications. With the exception of mainframe equipment or other capitalized expenses, the Division of IT does not differentiate costs between contingency equipment and other equipment.

In response our observation, the Directors of the Management Division and the Division of Financial Management stated that they had separated the COOP and intelligence functions into discrete cost centers at the start of 2014. The Directors also stated that they would work with the Division of IT to ensure that existing codes are used consistently and to determine whether additional tracking is warranted from a decisionmaking or cost-analysis perspective. We will continue to monitor the Board's progress to track COOP-related costs during future audit work.

The Board Has Not Analyzed Its Alternate Work Site Leasing Expenses or Rental Income From Subtenants

We found that the Board has not compared the rental rates it pays for its alternate work site and the rental rates it charges its subtenants with market rates of similar properties located within the area in which the contingency site is located. Such a comparison would help the Board determine whether the costs charged by the Reserve Bank and the costs billed to the subtenants are appropriate and reasonable based on market rates.

In April 2014, we also provided initial observations to the Director of the Management Division related to analyzing lease expenses and rental income. The Board's designated space in the alternate work site includes the entire fifth and sixth floors, along with a small portion of the fourth floor. The Board's leasing expenses are based on the proportion of the entire operation and maintenance cost of the building allocated to the Board and includes, but is not limited to, depreciation on Reserve Bank-purchased furniture and equipment, utilities, and building

maintenance. The expenses fluctuate from year to year and are based on the operating costs from the prior year.

The Board does not occupy all of its allocated space and has contracts in place with five federal agency subtenants; these subtenants lease approximately 29 percent of the Board's designated floor space. These subtenants are responsible for their specific expenses, such as furniture, build-outs, and circuit connections, and common-space costs based on the percentage of space they use, in addition to the annual base rent based on the square footage they occupy. On an annual basis, the Board can increase the subtenants' base rent to cover a prorated portion of any rental increase it receives from the Reserve Bank and to cover any additional shared expenses the Board may have in connection with the Reserve Bank.

The Reserve Bank provides the Board with an official e-mail each year that indicates its new rent amount for the coming year. This amount is based on the prior year's operating expenses. The Board then must determine which rent costs to bill to its subtenants and issues a memorandum to each subtenant notifying it of its rent for the coming year. From 2005 to 2013, the Board's base rent and overall leasing expenses increased at a higher overall rate than its rental income.

The Board's base rent is a percentage of the overall operating costs for the entire building as determined by the Reserve Bank; however, the Board has not analyzed leasing expenses or conducted a market analysis to determine whether the costs charged by the Reserve Bank and the costs billed to the subtenants are appropriate and reasonable in comparison to market rates. Management Division officials noted that a market analysis was not initially conducted because the Board determined that leasing from the Reserve Bank provided particular benefits, such as security controls, that met the Board's contingency site requirements.

In April 2014, the Directors of the Management Division and the Division of Financial Management stated that they have analyzed the Reserve Bank's annual assessments and which of these expenses should be passed on to the Board's subtenants. The Directors provided an analysis of the leasing expense data, which included depreciation, communication, IT, and miscellaneous expenses. They also provided results from a study conducted by a third-party commercial real estate firm of office space rates in the surrounding area.

We suggest that the Management Division and the Division of Financial Management continue to analyze leasing expenses and rental income from subtenants against market rates to identify any potential cost savings.

In response to our observation, the Director of the Management Division stated that at this time, the division will not be conducting a market analysis on office rates in the area but will revisit this issue in the future. It will continue administrating its lease duties and monitoring and reviewing expenses and rental income to ensure tenants are paying their fair share for the spaces and services.

Appendix A

Scope and Methodology

Our objectives were to evaluate the Board's contingency planning and COOP to ensure that they provide a coordinated strategy involving plans, procedures, and technical measures to enable the recovery of information systems, operations, and data after a disruption. We also reviewed the COOP operations for potential cost savings.

To accomplish our objectives, we completed the following steps:

- We reviewed relevant Board documents, including the Board's Volume I COOP, Volume II division COOPs, and COOP test results.
- We developed interview questions and conducted interviews of Board employees with continuity roles and responsibilities throughout the Board divisions, with the exception of the Division of Financial Management, which was recently created.
- We performed a site visit of the Board's alternate work site relocation facility.
- We reviewed applicable sections of the following documents:
 - National Security and Homeland Security Presidential Directive (National Security Presidential Directive/NSPD 51 and Homeland Security Presidential Directive/HSPD-20), *National Continuity Policy*, May 2007
 - Federal Continuity Directive 1 (FCD-1), *Federal Executive Branch National Continuity Program and Requirements*, February 2008
 - Federal Continuity Directive 1 (FCD-1), *Federal Executive Branch National Continuity Program and Requirements*, October 2012
 - U.S. Department of Homeland Security, Federal Emergency Management Agency, Continuity Guidance Circular, *Continuity Guidance for Non-Federal Entities (States, Territories, Tribal, and Local Government Jurisdictions and Private Sector Organizations)*, July 2013
 - U.S. Department of Homeland Security, Federal Emergency Management Agency, Federal Preparedness Circular 65, *Federal Executive Branch Continuity of Operations (COOP)*, June 2004
 - National Institute of Standards and Technology, Special Publication 800-34, *Contingency Planning Guide for Federal Information Systems*, May 2010

We conducted our fieldwork from July 2013 to March 2014. In April 2014, we provided our initial observations related to potential cost savings. We conducted this performance audit in

accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on 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

Management's Response



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

DATE: October 7, 2014

TO: Andrew Patchan Jr., Associate Inspector General for Information
Technology

FROM: Michell Clark, Director, Management Division *Michell Clark*
William Mitchell, Director and CFO, Division of Financial Management *Bill Mitchell*

SUBJECT: Combined Divisions' Response to OIG Audit of the Contingency Planning
and Continuity of Operations Programs

We have reviewed your report entitled "*The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Programs*" and appreciate the opportunity to provide comments on the report's findings, recommendations and management considerations.

Finding 1: Lack of Coordination May Affect the Board's Ability to Perform Its Mission During an Emergency

Recommendation

We recommend that the Director of the Management Division

1. Develop strategies to implement across the Board's divisions all the necessary aspects of the Board's continuity of operations plan (COOP).

Management Division's Response

The Management Division has implemented a more collaborative approach to develop and implement continuity programs throughout the Board. One example of this is that the Readiness and Resiliency Working Group (RRWG) division representatives decided in the April 2014 meeting to increase the frequency of RRWG meetings from quarterly to monthly. The primary reason for increasing the frequency of the RRWG meetings was to ensure collaboration and consistency of knowledge and implementation throughout the Board. Additionally, Intelligence & Resiliency Programs (IRP) personnel met individually with almost all of the division continuity representatives in February and March 2014 to talk with them about continuity programs and ways to improve IRP's

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support and increase collaboration. Since then, IRP has met individually with divisions on the Mission Essential Functions (MEF) process. IRP also drafted a template for Volume II-Division Plans for the divisions to use while drafting their continuity plans. This draft is currently with the divisions for final review and comment, and IRP is updating the plan as they receive comments. Another strategy that IRP is using is working with the divisions to increase the flow of information to division continuity representatives. Additionally, the responses to Finding 2 further elaborate on the Management Division's efforts to improve and implement COOP planning and readiness preparation at both the division and Board levels.

Finding 2: Deficiencies in the Board's COOP May Affect the Board's Ability to Perform Its Mission During an Emergency

Recommendation

We recommend that the Director of the Management Division

2. Develop a Test, Training, and Exercise program, a reconstitution plan, and a devolution plan for the Board's COOP, in accordance with the guidance provided in Federal Continuity Directive (FCD)-1.
3. Perform a comprehensive Business Process Analysis to identify and prioritize all the inputs and outputs that are necessary to perform the Board's Mission-essential Functions.
4. Ensure that the Board's Volume I and II COOPs correctly reflect all activities, inputs and systems that are required for the Board to resume its Mission-essential Functions.

Management Division's Response

Recommendation 2

Develop a test, training, and exercise (TT&E) program. The IRP section of the Management Division is currently in the process of completing a contract for the development of a continuity TT&E program. The Solicitation, Offer, and Award (SOA) document stipulates that the contractor utilizes both Homeland Security Exercise and Evaluation Program (HSEEP) and FCD-1 requirements as further detailed in the Continuity Evaluation Tool developed by the Federal Emergency Management Agency (FEMA) in creating the TT&E program. HSEEP provides a set of guiding principles for exercise programs, as well as a common approach to exercise program management, design and development, conduct, evaluation, and improvement planning and was the guidance for FEMA's National Continuity Program Directorate used to draft the TT&E portion of FCD-1. The Continuity Evaluation Tool breaks out the requirements established in FCD-1 and is the tool FEMA uses to evaluate continuity programs. The SOA document encompasses the entire breadth of a continuity TT&E program and not only includes developing a TT&E program, but also scenarios and documentation that the Board will use to conduct training and exercises as well as maintain the program. The SOA was released out for bid on September 26, 2014.

Develop a reconstitution plan. A reconstitution plan supports the restoration of full normal operations after a continuity event. IRP plans to begin development of a

reconstitution plan in 2015 and is in the process of developing a schedule that will address reconstitution of leadership, staff, communications, and facilities. Additionally, IRP continuity staff who will be working on the Board's reconstitution planning will also take an online course on reconstitution offered through FEMA's Emergency Management Institute (EMI). The course is titled IS-545: Reconstitution Planning Course and IRP continuity staff will complete it during December 2014 and January 2015. IRP will train Board staff and develop templates, forms, and other tools that Reconstitution Team members can use throughout reconstitution plan development.

Develop a devolution plan. Devolution planning supports continuity planning by allowing the Board to continue essential functions if the organization's leadership and relocation team members are unavailable or incapable of performing their essential functions. FEMA expects devolution counterparts to have the capability to perform Primary Mission Essential Functions (PMEF) within 12 hours, and other essential functions within an acceptable recovery time. Because much of the decisions on devolution are based on validated PMEFS and MEFs, IRP has linked beginning this plan with completion of the MEF validation which is scheduled to be completed in January 2015. IRP has drafted and is currently coordinating a division COOP plan template that includes overview sections on both devolution and reconstitution that will begin laying a foundation for work that the Board will start in 2015. Additionally, IRP continuity staff who will be working on Board devolution planning will also take the IS-551: Devolution Planning course through FEMA's EMI in December 2014 and January 2015 in preparation for 2015 devolution planning. IRP will develop plan templates and other tools that they will use in meetings with Board divisions to complete individual division devolution plans, as well as a Board Devolution Plan.

Recommendation 3

In accordance with FCD-2, Federal Executive Branch MEF and Candidate PMEF Identification and Submission Process dated 2013, IRP has already begun the process to conduct a Business Process Analysis (BPA) and Business Impact Analysis (BIA). Developing a BPA is part of a linear process that first involves development of Division/Board MEF, second is development of the BPA for the MEF, and the third step is to conduct the BIA.

IRP began the MEF revalidation and identification process in April 2014. On April 22nd, IRP continuity and emergency preparedness staff participated in a one day training session on MEF and PMEF development, and received a primer on the BIA and BPA process. This training was taught by FEMA National Continuity Program (NCP) staff, and was tailored for the Board and conducted onsite. IRP discussed with FEMA NCP staff BIA and BPA training, and FEMA will return to conduct additional training after the Board has concluded the MEF process.

IRP discussed the MEF process with the divisions at the RRWG meeting on May 7, 2014 and reviewed a schedule to have one on one meetings with the divisions on the MEFs. As of August 22, 2014, IRP has conducted meetings with fourteen divisions and the COO, and is planning to meet with the remaining divisions on October 16, 2014. Prior to the meetings, IRP drafted a list of potential MEFs based upon a review of the divisions' most recent continuity plans as well as the mission and functions documents that they submitted during the 2015 budget planning process to the Division of Financial

Management (DFM). IRP also walked each division through the MEF process to ensure that the divisions use a common set of criteria and definitions while reviewing and updating their MEF.

IRP plans to complete the division MEF process around the end of November 2014, and complete the determination of Board MEFs in January 2015. IRP plans to have the additional training from FEMA on the BIA and BPA process in January 2015. IRP will begin meeting with divisions in February 2015 to develop the BPA for division MEFs, and will plan to complete the process in September 2015. In parallel to the MEF initiative with the divisions, IRP is also developing a Board threat and hazard document that the Board will use during the BIA process. IRP has scheduled completion of this document for the end of November 2014.

Recommendation 4

Completing this recommendation is linked to the Management Division's response to recommendations 2 and 3. The first step is developing a clear understanding of Board and divisions MEFs. This process is already underway. As part of the MEF development process and completing the MEF Data Sheet, divisions and the Board will identify the Recovery Time Objective for individual MEFs. Also, in another part of the BPA they will identify the resources, to include communications and information technology (IT) requirements, necessary to perform the MEFs; and will identify customers and resource suppliers for mission accomplishment. This information will be included in both the Board's Volume I COOP plan, as well as the Volume II Division continuity plans. IRP has also already had a conversation with the Division of IT about cross walking the results of the PMEF/MEF process with the systems that divisions have already identified as critical. IRP will be able to meet with IT to crosswalk the MEF, and upon completion of the BPA will be able to crosswalk the systems listed in the BPA to match them with IT's prioritization. IRP and IT can then work with the divisions to reconcile any discrepancies that are noted during the review.

The audit provided three items for management to consider. These items along with the divisions' responses are given below.

Consideration 1: Hotel Contracts Do Not Guarantee Room Availability

We suggest that the Director of the Management Division assess other approaches to ensuring that living accommodations for critical Board employees and their families who are required to relocate to the alternate work site will be available.

Management Division's Response

The division has established contracts with approximately twenty hotel properties in the area of the relocation site to provide lodging for staff, their families and for the tenants, as needed. Since a hotel is a business, it is not possible to "guarantee" rooms for our staff, but the contracts provide a mechanism and assurance for the Board to secure any open rooms and others as they are vacated. Other agencies have tried to establish similar agreements over the years and the hotel properties have honored their relationships with the Board.

There is no cost to the Board for these contracts. And in discussions with the hotel sales staff, they are confident that if a major emergency scenario occurs, resident guests would try to leave the properties as soon as possible. If the Board makes the decision to relocate to the alternative work site, designated IRP staff would then make calls to all of the hotel properties and secure all available rooms in preparation for the deployment of staff and their families.

The division is not averse to researching other approaches to providing living arrangements for employees who are relocated to the alternative work site. In the near future, it will begin assessing residence alternatives for employees.

Consideration 2: Board Divisions Do Not Use Specific Line Items or Accounting Codes to Track Board-Related COOP Costs

Management Division and DFM's Response

In response to the observations made by the OIG in April 2014, the Directors of the Management Division and the DFM stated that they had separated the COOP and intelligence functions into discrete cost centers at the start of 2014. The Directors also expresses that they would work with the Division of IT to ensure that existing codes are used consistently and to determine whether additional tracking is warranted from a decision-making and/or cost analysis perspective. The divisions will continue to monitor the Board's progress to track COOP related costs during future audit work.

Consideration 3: The Board Has Not Analyzed Its Alternate Work Site Leasing Expenses or Rental Income From Subtenants

We suggest that the Management Division and the DFM continue to analyze leasing expenses and rental income from subtenants against market rates to identify any potential cost savings.

Management Division's Response

As noted in the April 2014 response memo to the OIG's observations, the division diligently oversees and administers its responsibilities for the contingency site's leases. This function includes determining on an annual basis which operating site assessments are passed onto tenants and charging requested services to the tenants. At this time, the division will not be conducting a market analysis on office rates in the area but will revisit this issue in the future. It will continue administering its lease duties and monitoring and reviewing expenses and rental income to ensure tenants are paying their fair share for their spaces and services.



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