



OFFICE OF INSPECTOR GENERAL

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

September 29, 2016

MEMORANDUM

TO: Board of Governors

FROM: Mark Bialek 
Inspector General

SUBJECT: 2016 List of Major Management Challenges for the Board

We are pleased to provide you with the Office of Inspector General's (OIG) 2016 list of major management challenges facing the Board of Governors of the Federal Reserve System (Board). These challenges represent what we believe to be the areas that, if not addressed, are most likely to hamper the Board's accomplishment of its strategic objectives.

We identified the Board's major management challenges by reviewing our audit and evaluation work, reports issued by the U.S. Government Accountability Office, and Board documents. The following table lists the seven management challenges, in order of significance.

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Each challenge is detailed below.

Enhancing Oversight of Cybersecurity at Supervised Financial Institutions

Cybersecurity, as defined by the National Institute of Standards and Technology, is “the process of protecting information by preventing, detecting, and responding to attacks.” In February 2016, the President of the United States stated that cybersecurity is one of the most important challenges we face as a nation. Appropriately, the Board has designated cybersecurity oversight as a high priority, and the Financial Stability Oversight Council has identified cybersecurity oversight as an emerging threat for increased regulatory attention. The council reported that “cybersecurity-related incidents create significant operational risk, impacting critical services in the financial system, and ultimately affecting financial stability and economic health.”

The Board’s supervisory program for financial institutions includes efforts to ensure that supervised financial institutions manage and mitigate the potential risks and vulnerabilities associated with cyberattacks. The Board has also worked with the other member agencies of the Federal Financial Institutions Examination Council to provide various guidance documents to aid bank examiners in the oversight of financial institutions. Recently, the Board formed the Cybersecurity Program Group, comprising Board and Reserve Bank staff members, to develop an advanced cybersecurity framework that will guide information technology (IT) examinations.

As cyberthreats and attacks at financial institutions increase in number and sophistication, the Board faces challenges in appropriately tailoring and keeping current its supervisory approach to the various institutions it supervises, as well as in defining short- and long-term goals and working with other financial regulators to provide supervised institutions with support and guidance. In addition, as the use of technology continues to become more sophisticated, hiring and training sufficient numbers of employees with the expertise needed to conduct detailed examinations of information security systems presents a challenge. To assist financial institutions in evaluating their cyberthreats, the Board, as a member of the Federal Financial Institutions Examination Council, helped develop the Cybersecurity Assessment Tool. The Cybersecurity Assessment Tool, released in June 2015, is consistent with National Institute of Standards and Technology cybersecurity guidance. The Board’s Cybersecurity Program Group continues its work developing supervisory program components, such as training and resource coordination, risk analysis, incident management, and other work streams, to guide future IT examinations.

Other Related Information

- U.S. Government Accountability Office, *Cybersecurity: Bank and Other Depository Regulators Need Better Data Analytics and Depository Institutions Want More Usable Threat Information*, [GAO-15-509](#), July 2, 2015

Ensuring an Effective Information Security Program

The importance of information security in the federal sector can be seen through recent incidents involving breaches of sensitive data and the sharp increase in information security incidents reported by federal agencies over the last several years. Cyberthreats can be targeted or

untargeted attacks from criminals, hackers, disgruntled employees, and other organizational insiders, among others, and can be unintentional or intentional. The Board faces challenges in enhancing its information security programs, ensuring that its online collaborative environments are restricted to those with a need to know, and ensuring that its third-party providers meet information security program requirements.

The Board is required to design information security programs to protect its IT infrastructure. To address this requirement, the Board has developed and implemented a Boardwide information security continuous monitoring program. Although the program is generally consistent with federal requirements, our work has identified opportunities for the Board to mature its information security continuous monitoring program through greater centralization and automation in the areas of people, processes, and technology. Similarly, the Board is challenged in implementing a Boardwide risk-management program because some Board divisions independently manage their own IT infrastructure. Lastly, although the Board uses an enterprise data loss prevention solution and developed a draft insider threat plan for its sensitive systems, it has not determined the most efficient ways to ensure that sensitive information is securely maintained.

The Board also faces a challenge in ensuring that only those with a need to know have access to its online collaboration environments. The Board has implemented an access review process and training program for its online collaborative environment; however, the process still places significant reliance on users' effectively administering the system controls on a document-by-document basis. Our recent work showed that information maintained in the Board's enterprise-wide collaboration tool was not restricted to individuals with a need to know. As a result, there was a heightened risk of unauthorized disclosure or inappropriate use of sensitive Board information. The Board needs to strengthen the technical controls in its online collaborative environments to ensure the safety of this information.

The Board relies on third-party providers to support its IT program. These providers include the Federal Reserve Banks that provide IT solutions in support of certain delegated Board functions. The Board recently strengthened its program to oversee external third-party contractors; however, the Board faces challenges in ensuring that the Reserve Banks' information systems and services have appropriate controls and adhere to certain requirements. For example, the Board needs to ensure that the Reserve Banks' information security controls are implemented and maintained in accordance with Board requirements.

Moving forward, the Board plans to continue improving its information security programs, its controls over online collaborative environments, and its third-party providers' compliance with information security program requirements.

Related OIG Reports

- *2015 Audit of the Board's Information Security Program*, [OIG Report 2015-IT-B-019](#), November 13, 2015

Other Related Information

- U.S. Government Accountability Office, *High-Risk Series: An Update*, "Ensuring the Security of Federal Information Systems and Cyber Critical Infrastructure and Protecting the Privacy of Personally Identifiable Information," [GAO-15-290](#), February 11, 2015

Sustaining an Effective Financial Stability Regulatory and Supervisory Framework

Promoting the safety, soundness, and stability of financial institutions and financial market infrastructures is one of the Board's core activities in support of its mission. The Board's challenges in sustaining an effective financial stability regulatory and supervisory framework include (1) finalizing and ensuring compliance with new regulations, (2) leveraging the existing technology infrastructure that supports supervisory activities, and (3) maintaining effective relationships with other regulators.

While the Board has finalized many of the regulations mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, some rulemakings remain in the comment phase or have yet to be finalized. The Board must continue to finalize regulations and develop guidance to address legislative mandates and changes in the economic environment. As provisions for major regulatory reforms near completion, the Board must shift its focus from rule writing to compliance, interpretation, and enforcement.

Because data and information management continue to increase in importance and complexity, the Board will need the right tools to analyze, process, share, and safeguard massive amounts of data. Accordingly, the Board must continue to leverage and enhance its IT tools to effectively and efficiently conduct its supervision activities.

To effectively execute its duties as the consolidated supervisor for bank, financial, and savings and loan holding companies, the Board must continue to cultivate and maintain strong cooperative relationships with the primary supervisors of holding company subsidiaries. The Board's effective collaboration with other regulators is also paramount to its efforts to monitor and address emerging and systemic risks. Sustained efforts to coordinate with other federal supervisory agencies can assist the Board in reducing the potential for duplicative efforts or gaps in supervisory coverage, as well as identifying and addressing systemic risks. Further, such coordination is crucial to the Board's effective execution of its supervisory responsibilities.

The Board plans to continue finalizing regulations that support the financial stability framework as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Board also continues to assess enhancements to improve the usability of technological tools in support of its supervisory activities. In support of interagency collaboration, the Board continues to

coordinate with its supervisory counterparts to align strategic objectives and minimize duplicative efforts.

Related OIG Reports

- *The Board Should Enhance Its Supervisory Processes as a Result of Lessons Learned From the Federal Reserve's Supervision of JPMorgan Chase & Company's Chief Investment Office*, [OIG Report 2014-SR-B-017](#), October 17, 2014

Other Related Information

- U.S. Government Accountability Office, *2016 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-16-375SP](#), April 13, 2016

Establishing an Efficient and Effective Governance System

An effective governance system provides leadership, direction, and accountability in fulfilling an organization's mission and providing stewardship of public resources while establishing clear lines of responsibility for results. The Board currently has a complex governance system that allows divisions to largely operate autonomously on mission-critical initiatives. Our work has identified challenges related to the Board's governance structure, such as the inconsistent implementation of administrative internal controls, including the lack of an enterprise risk-management system, and the decentralized management of common functions.

The Board's current governance structure contributes to the inconsistent implementation of Boardwide administrative internal controls. Federal internal control standards state that an internal control system that is built into the organization's structure helps management ensure operational efficiency and effectiveness and identify risks. The Board, however, does not have an enterprise risk-management system that incorporates its internal control system. In a 2013 report, we identified the need for an agency-wide policy and process for maintaining and monitoring internal controls. To date, the Board has made little progress in establishing this agency-wide process.

The Board's governance system allows divisions to operate independently of one another on common key activities, resulting in redundancies, higher costs, and the lack of a single accountable authority. For example, although the Board provides enterprise-wide IT services, some divisions have their own IT functions, which can result in operational inconsistencies, as well as higher costs due to the duplication of efforts. Previously, we identified that the Board's ability to perform its mission during an emergency may be affected by the lack of centralized governance for the Board's continuity of operations plan.

In its strategic plan, the Board has identified initiatives to improve its governance system, including (1) establishing governance that more effectively prioritizes resources within the

constraints of the budget, (2) defining a governance plan for the Board's use of technology, and (3) implementing a data governance framework.

Related OIG Reports

- *The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program*, [OIG Report 2014-IT-B-018](#), October 30, 2014
- *The Board Should Enhance Its Policies and Procedures Related to Conference Activities*, [OIG Report 2014-FMIC-B-009](#), June 30, 2014
- *Opportunities Exist to Achieve Operational Efficiencies in the Board's Management of Information Technology Services*, [OIG Report 2014-IT-B-003](#), February 26, 2014
- *The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control*, [OIG Report 2013-AE-B-013](#), September 5, 2013

Other Related Information

- Board of Governors of the Federal Reserve System, [Strategic Plan 2016–19](#) (Strategic Pillar: Project Development and Resource Allocation, page 9; Strategic Pillar: Technology, page 11; and Strategic Pillar: Data, page 12)

Managing the Handling and Release of Sensitive Federal Open Market Committee and Board-Generated Information

Sensitive Federal Open Market Committee (FOMC) and Board-generated information has the potential to significantly influence financial market activity and affect important public policies or private-sector decisions. Accordingly, the Board has a responsibility to effectively manage the handling and release of such information. Recent events, however, have shown that the Board faces challenges in managing the handling and release of sensitive FOMC and Board-generated information.

Four separate events from June 2015 through September 2016 demonstrated weaknesses in the Board's management controls over the safeguarding of sensitive FOMC and Board-generated information. In June 2015, a Board employee inadvertently posted a confidential staff economic forecast on the public website five years prior to its designated release time. Then, in August 2015, the Board's management controls for protecting sensitive information provided to news organizations were not followed. In this incident, a news organization published sensitive economic information prior to its designated time for public release. In July 2016, embargoed FOMC information was released prematurely. Most recently, in September 2016, a news organization published embargoed economic information prior to the designated release time. These instances highlight the need for the Board to continue to improve its management controls surrounding the release of sensitive FOMC and Board-generated information.

Over the past year, the Board has worked to strengthen its controls surrounding the handling and release of sensitive FOMC and Board-generated information. The Board has implemented a data loss protection program, which helps reduce the risk of employees inadvertently sending sensitive information by email or transmitting sensitive information through other media to unauthorized recipients. Although this is an important detection strategy, the Board still faces challenges in protecting its information from unauthorized or premature disclosure. To further reduce risks in this area, the Board is implementing process improvements to its handling and release of sensitive FOMC and Board-generated information.

Related OIG Reports

- *The Board Should Strengthen Controls to Safeguard Embargoed Sensitive Economic Information Provided to News Organizations*, [OIG Report 2016-MO-B-006](#), April 15, 2016
- *2015 Audit of the Board's Information Security Program*, [OIG Report 2015-IT-B-019](#), November 13, 2015

Advancing Efforts to Improve Human Capital Management

The Board's success in achieving its mission depends on attracting, retaining, and developing a qualified, diverse, and agile workforce. The development of such a workforce, however, is complicated by continually evolving workforce expectations and a highly competitive hiring environment for staff with the specialized skills that the Board needs. A key step in ensuring that the Board has a diverse workforce that can effectively carry out its mission is identifying the necessary technical, managerial, and leadership skills through workforce and succession planning. In addition, the Board must continue to support its new performance management process, which is intended to provide greater accountability for organizational objectives and to support employee development.

Workforce planning can help the Board strengthen its human capital management by identifying the critical skills and competencies necessary to achieve its mission. A key part of workforce planning is to develop a succession plan to ensure continuity of knowledge and leadership, as well as identify and develop a diverse pool of talent for senior management positions. The Board is challenged to develop and implement a Boardwide strategic workforce-planning program because the Board's workforce planning activities to date have been narrowly focused and have not incorporated a more strategic perspective. The Board recognizes the need (1) to adopt a more strategic approach to workforce planning that assesses how the placement of vacant positions and the requisite skill sets can best meet the Board's workforce needs and (2) to attract diverse, highly qualified employees.

In 2015, the Board implemented a new performance management system across the organization following a 2014 pilot program. The new performance management system encourages regular performance conversations between managers and employees. Further, this system seeks to align employee, division, and Board goals. As the performance management system enters its third year of implementation, the challenge remains for the Board to ensure that its new performance

management system provides the necessary performance feedback; contributes to enhanced employee performance; and is effective, fair, and not overly burdensome.

The Board plans to continue its efforts to implement strategic workforce planning and the new performance management system.

Related OIG Reports

- *The Board Can Enhance Its Diversity and Inclusion Efforts*, [OIG Report 2015-MO-B-006](#), March 31, 2015

Other Related Information

- Board of Governors of the Federal Reserve System, [Strategic Plan 2016–19](#) (Strategic Pillar: Workforce, page 10)

Managing and Acquiring Sufficient Workspace to Support the Board’s Mission

Renovating office space presents significant risks and challenges, including contractor oversight, cost management, and disruptions to employees. The renovation of its William McChesney Martin, Jr., Building (Martin Building) is one of the Board’s largest contracting efforts. A renovation of this magnitude is a complex undertaking that has created challenges for the Board.

The Board is responsible for overseeing the firm conducting the design work while also managing multiple real property assets. The completion date for the Martin Building renovation has been extended several times. The Board currently estimates that the project will be completed in 2020. As we previously reported, additional delays could have a cascading effect on the costs incurred for the project.

The Board’s overall staffing level has grown significantly over the last several years, and continued growth is expected in some of its divisions. The Board is challenged with accommodating the expected growth of its workforce while also effectively managing its existing real property assets. After the completion of the Martin Building renovation, the Board will continue to need to occupy space in several buildings in Washington, DC, which creates additional challenges.

To ensure that the renovation of the Martin Building remains on schedule, the Board has biweekly meetings with the design firm to discuss project progress, resolve outstanding issues, monitor the schedule, and review other pertinent matters. In addition to monitoring the ongoing Martin Building renovation, the Board identified the development of a Boardwide space plan as a key initiative. The Board is focusing on its long-term space requirements by considering factors such as building location limitations, the projected growth of the workforce, technological requirements, and the implications of telework.

Related OIG Reports

- *Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project*, [OIG Report 2014-AE-B-007](#), March 31, 2014
- *Audit Observations on the Board's Planning and Contracting Process for the Martin Building Construction, Renovation, and Relocation of Staff*, [OIG Report 2013-AA-B-007](#), March 29, 2013

Other Related Information

- Board of Governors of the Federal Reserve System, [Strategic Plan 2016–19](#) (Strategic Pillar: Physical Infrastructure, page 10)

Closing

We are monitoring the Board's efforts to address the management challenges highlighted in this document. Our work includes following up on open recommendations and conducting related audit and evaluation work. For additional information on our ongoing and planned work, please see our [Work Plan](#).

We appreciate the cooperation that we received from the Board regarding this year's major management challenges. Please contact me if you would like to discuss any of the challenges.

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