

Bureau of Consumer Financial Protection

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



Office of Inspector General

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



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

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

Findings

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

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

Recommendations

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

Purpose

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

Background

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

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



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Recommendations, 2019-SR-C-001, January 28, 2019

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

Finding 1: The Bureau’s MRA Reporting Measurement Is Prone to Misinterpretation and Some of the Underlying Data Are Not Reliable

Number	Recommendation	Responsible office
1	Clarify SEFL’s purpose and intent for tracking and reporting its MRA follow-up activities and ensure that the calculation of the measurement and the description of the measurement clearly and accurately communicate the Bureau’s recent and historical performance against those objectives.	Division of Supervision, Enforcement and Fair Lending
2	Standardize the data entry expectations for the <i>ERC Date</i> and <i>Due Date</i> fields in SES and implement a quality control process to validate the accuracy of these entries.	Division of Supervision, Enforcement and Fair Lending

Finding 2: The Bureau Has Not Formalized Expectations for Aspects of the MRA Follow-Up Process and Documentation Practices Are Inconsistent

Number	Recommendation	Responsible office
3	Implement guidance that establishes SEFL’s expectations and training for new and existing policies that cover the following: <ul style="list-style-type: none"> a. posting MRA documentation to SES, including what to post, when to post it, and to what SES folder it should be posted. b. receiving, approving, and retaining MRA extension and closure communications. c. documenting MRA closure dates in SES. 	Division of Supervision, Enforcement and Fair Lending
4	Develop training and monitoring activities to ensure that SEFL employees are aware of and comply with policies and procedures related to communicating the closure of MRAs to supervised entities.	Division of Supervision, Enforcement and Fair Lending
5	Conduct testing to ensure that the Follow-up Subaction Internal Supervisory Memorandum has been implemented and is used consistently.	Division of Supervision, Enforcement and Fair Lending
6	Evaluate whether more involvement from the Regional Analysts in the MRA follow-up process may help improve consistency.	Division of Supervision, Enforcement and Fair Lending



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MEMORANDUM

DATE: January 28, 2019

TO: Christopher D'Angelo
Associate Director, Division of Supervision, Enforcement and Fair Lending
Bureau of Consumer Financial Protection

FROM: Cynthia Gray *Cynthia Gray*
Acting Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2019-SR-C-001: *The Bureau Can Improve Its Follow-Up Process for Matters Requiring Attention at Supervised Institutions*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the effectiveness of the Bureau of Consumer Financial Protection's (Bureau) follow-up process for Matters Requiring Attention (MRAs).

Our report contains recommendations designed to improve the Bureau Division of Supervision, Enforcement and Fair Lending's (SEFL) MRA follow-up process. 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. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from the SEFL team during this evaluation. Please contact me if you would like to discuss this report or any related issues.

cc: Eric Blankenstein, Policy Associate Director, Division of Supervision, Enforcement and Fair Lending
David Bleicken, Deputy Associate Director, Division of Supervision, Enforcement and Fair Lending
Paul Sanford, Assistant Director, Office of Supervision Examinations
Tim Siwy, Deputy Assistant Director, Office of Supervision Examinations
Elizabeth Reilly, Chief Financial Officer
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Carlos Villa, Finance and Policy Analyst, Office of the Chief Financial Officer



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Introduction

Objective

We initiated this evaluation to assess the Bureau of Consumer Financial Protection (Bureau) Division of Supervision, Enforcement and Fair Lending's (SEFL) effectiveness in monitoring corrective actions taken to address Matters Requiring Attention (MRAs) and ensuring that supervised institutions address MRAs in a timely manner.¹

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act granted the Bureau supervisory authority to conduct examination activities at certain bank and nonbank entities that provide financial products and services to consumers.² As part of SEFL's supervisory oversight activities, the Bureau may issue corrective actions to supervised entities in various forms to address deficiencies identified during examinations.³ When a corrective action has been issued, the Bureau periodically assesses a supervised entity's progress toward addressing and closing that action through limited-scope follow-up reviews or examinations, offsite follow-up reviews, or quarterly monitoring activities. We learned that since the Bureau began operations in 2011, the number of examinations conducted and corrective actions issued has increased each year. As a result, a senior official noted that SEFL has made its corrective action follow-up process a focus during its supervisory planning efforts.

Corrective actions that SEFL identifies during the examination process may address (1) violations of federal consumer financial laws or regulations, (2) compliance program deficiencies, or (3) control weaknesses.⁴ SEFL issues four types of corrective actions to supervised institutions: MRAs, memorandums of understanding (MOUs), board resolutions, and formal enforcement actions.⁵ Formal enforcement actions, such as consent orders, are the most severe type of corrective action issued by the Bureau and are publicly reported. Our evaluation focused on the follow-up process related to MRAs. Please refer to appendix A for additional information on the scope and methodology for our evaluation.

¹ Matters Requiring Attention are corrective actions that result from examination findings and require the attention of a supervised institution's board of directors or principals.

² 12 U.S.C. §§ 5514–15.

³ During our fieldwork, SEFL comprised the Office of Supervision Examinations, the Office of Supervision Policy, the Office of Enforcement, and the Office of Fair Lending and Equal Opportunity. In January 2019, the Director announced that the Office of Fair Lending and Equal Opportunity had been relocated under the Office of the Director.

⁴ Examples of federal consumer financial laws or regulations include Regulation X (12 C.F.R. part 1024), which implements the Real Estate Settlement Procedures Act of 1974 (12 U.S.C. § 2601 et seq.), and Regulation Z (12 C.F.R. part 226), which implements the Truth in Lending Act (15 U.S.C. § 1601 et seq.).

⁵ The Bureau's Office of Supervision Examinations issues MRAs, MOUs, and board resolutions, which are nonpublic corrective actions, and the Bureau's Office of Enforcement issues formal enforcement actions.

The Annual Prioritization and Examination Scheduling Process

The Bureau prioritizes potential supervisory activities using a risk-based approach and schedules the resulting prioritized activities for examination during the next 12 months. During this annual process, SEFL also prioritizes corrective action follow-up reviews and other examination work to be completed. SEFL's Assistant Directors, Regional Directors, and Assistant Regional Directors meet during the annual prioritization process to determine the final supervisory schedule.

SEFL's Process for Issuing, Reviewing, and Closing MRAs

When examiners identify violations or deficiencies during the course of an examination or limited review, SEFL issues an MRA to the entity. After issuing an MRA, SEFL provides the supervised entity with the time frame within which it must fulfill the requirements of the MRA. The time frame can range from 30 to 90 days or longer, depending on the severity of the issue. The supervised entity must provide a written response to SEFL outlining (1) the steps it intends to take to remediate the MRA or (2) the steps it completed to address the issue. Examiners assess the written response to determine whether the entity has completed the requirements of an MRA. Some MRAs can be closed through a review of the documents an entity provides to SEFL and the issuance of a closure letter; however, examiners indicated that for more complex MRAs, they assess the entity's responses and close the MRAs during future supervisory examinations. In other instances, SEFL may inform the supervised entity that additional validation testing is needed to determine whether an MRA can be closed.

SEFL employees document the expected time frames for remediating MRAs through three data fields in the Supervisory and Examination System (SES), the Bureau's system of record for its examination activities. Those data fields are the *Entity Reported Complete (ERC) Date*, the *Original Due Date*, and the *Due Date*. The *ERC Date* field represents the date a supervised entity completes an MRA, as reported by the entity. The *Original Due Date* field represents the initial due date that the Bureau gave the entity; this date cannot be changed in the system of record. The *Due Date* field is the date by which a supervised entity must respond to an MRA. Interviewees highlighted that the Bureau's regions determine this due date in coordination with the supervised entity.

SEFL employees indicated that once a supervised entity fulfills the requirements of an MRA, it submits supporting documentation to the Field Manager or point of contact to evidence the work that has been completed to address the issue. Depending on the requirements of an MRA, we learned that SEFL may choose to perform either quarterly monitoring assessments, a limited-scope review (referred to as a Type 12 review), or an offsite review (referred to as a Type 21 review) to confirm that the entity's corrective action satisfies the MRA.⁶

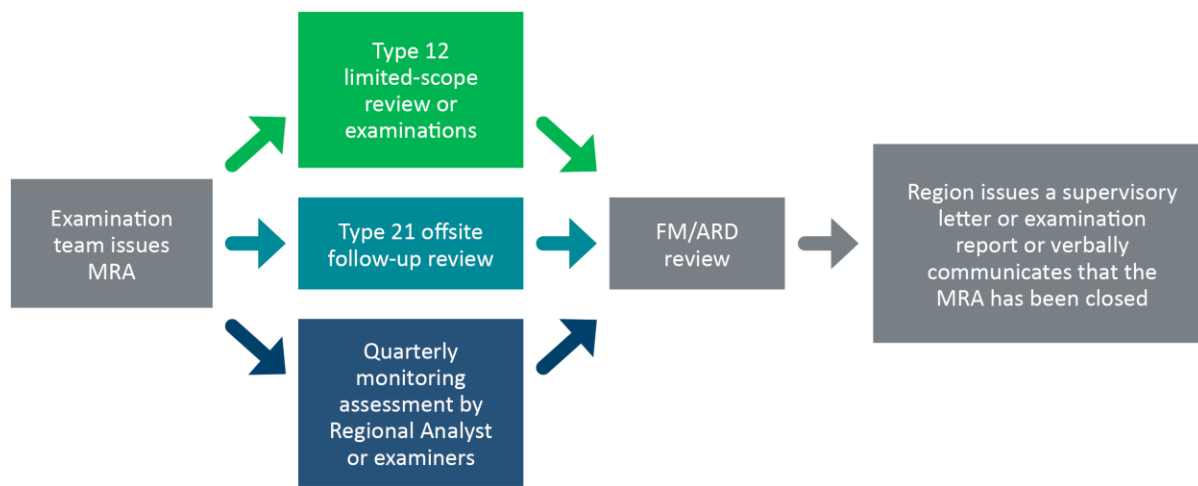
Interviewees noted that Field Managers have responsibility for monitoring or reviewing the status of MRAs and the Bureau's Regional Analysts may assess the status of MRAs through quarterly monitoring

⁶ In April 2017, SEFL developed the *Closing Actions through Off-site Monitoring* policy. The policy discusses Type 21 follow-up reviews, which are used to close MRAs offsite. Type 21 follow-up reviews can be scheduled at any time and are not required to be included in SEFL's supervision schedule. SEFL also uses Type 12 supervisory events, which are limited-scope reviews performed onsite at the entity to close MRAs. Additionally, we learned that SEFL uses quarterly monitoring assessments to close MRAs.

activities.⁷ Additionally, the Bureau tracks entity responses to MRAs and uses a performance measurement to monitor and communicate the status of MRAs for internal management and public reporting purposes.

Interviewees indicated that upon verifying that an entity has satisfied the requirements of an MRA, the assigned Field Manager generally closes the MRA in SES and communicates the closure to the supervised entity. Figure 1 depicts the three paths for reviewing and closing MRAs.

Figure 1. The Three Approaches for Reviewing and Closing MRAs



Source. OIG interviews with SEFL employees and review of Bureau policies and procedures.

FM Field Manager

ARD Assistant Regional Director

Requests for Extensions on Corrective Actions

In the event that a supervised entity requires additional time to address a corrective action, interviewees stated that SEFL expects the entity to request an extension in writing. According to several interviewees, the Field Manager assigned to an entity generally approves extension requests and posts a record of the request and the approval to SES. Interviewees also stated that SEFL generally does not use a predetermined time frame when granting extensions; the extension granted is based on the requirements of the corrective action under review.

Storage of Corrective Action Documentation

Bureau examiners use SES as the official system of record and repository for SEFL’s examination-related documents, including those used to support decisions related to the issuance and closure of corrective actions. In June 2017, the Bureau updated its SES platform. We learned that SEFL employees also use

⁷ Interviewees stated that Regional Analysts assist in monitoring open corrective actions and that each Bureau region has at least three Regional Analysts.

shared drives to temporarily store large examination documents received from supervised entities. According to interviewees, SEFL employees post documents needed to support examination-related conclusions and corrective actions to SES.



Finding 1: The Bureau’s MRA Reporting Measurement Is Prone to Misinterpretation and Some of the Underlying Data Are Not Reliable

The Bureau’s MRA reporting measurement—the percentage of supervisory MRAs resolved by the prescribed time frame—appears to overstate the agency’s progress toward closing MRAs. SEFL employees used varying approaches for populating the *ERC Date* field in SES, which factors into the measurement, and we noted a number of data entry errors in SES that affect the reliability of the measurement. In addition, the Bureau does not explain or define the term *resolved* when it publicly reports this measurement. In our opinion, the use of the term *resolved* may create the impression that a supervised entity has taken all actions necessary to address an MRA in a timely and satisfactory manner, when in fact, the Bureau’s calculation of the measurement includes MRAs that are in the process of being addressed by the institution or have yet to be verified as complete. In addition, although SEFL has established expectations for the *ERC Date* field in policy, those expectations have not been implemented effectively. We noted that there is no standardized approach for populating the *ERC Date* field or for testing the accuracy of the data entered in the *ERC Date* field. We believe that clarity and accuracy in the MRA reporting measurement is important because the measurement is included in the Bureau’s *Triannual Performance Report* that is prepared for senior agency management, including the Director, and in *The CFPB Strategic Plan, Budget, and Performance Plan and Report*, which is available to the public.⁸

The Lack of Clarity Around the Term *Resolved* in the Bureau’s MRA Reporting Measurement May Lead to Misinterpretation

The Bureau’s MRA reporting measurement, which is “the percentage of supervisory MRAs resolved by the prescribed timeframe,” is highlighted both in the Bureau’s *Triannual Performance Report* sent to the agency’s senior management and in its public strategic performance reports. In the public reporting of this measurement, the term *resolved* is not defined. Without a definition, this measurement may be interpreted to mean that *resolved* MRAs have been formally closed, when in fact, the Bureau includes MRAs that are not yet completed in the *resolved* category.

SEFL uses the *ERC Date* field and the *Due Date* field to create the Bureau’s MRA reporting measurement. The Bureau’s *Data Entry Policy* states that the *ERC Date* field in SES represents the date a supervised entity “completed a corrective action, as reported by the entity.” The *Due Date* field indicates the date by

⁸ Bureau of Consumer Financial Protection, *The CFPB Strategic Plan, Budget, and Performance Plan and Report*, May 2017.

which a supervised entity must respond to the issued MRA. If the date entered in the *ERC Date* field is on or before the MRA's due date, the Bureau reports that the MRA has been resolved in a timely manner.

A supervised entity typically responds in writing to SEFL regarding an MRA by either (1) outlining the steps it has already taken to remediate the MRA or (2) outlining the steps it intends to take to remediate the MRA. In either case, the *ERC Date* field contains the date indicated in the response letter. In both cases, the Bureau's MRA reporting measurement states that an entity has resolved the MRA in a timely manner, as long as the ERC date is on or before the MRA due date. In the first case, SEFL may still need to validate that the entity's response fulfills the requirements of the MRA. An interviewee in one region stated that during many MRA follow-up reviews, examination teams find that an entity has not adequately addressed all the provisions of the MRA, even though the entity may have communicated full compliance. In the second case, the entity is reporting that it has not fully addressed the requirements of the MRA.

The CFPB Strategic Plan, Budget, and Performance Plan and Report, which aligns with requirements in the Government Performance and Results Act of 1993 (GPRA), identifies the timely resolution of supervisory MRAs as a performance goal.⁹ In the report, the Bureau indicates that it will monitor institutions that receive notices of MRAs to ensure that adequate actions are taken. For fiscal years 2015–2017, the Bureau's target for the MRA reporting measurement was to resolve 80 percent of MRAs within the time frame stated in the supervisory letter or examination report.

The Bureau reported in its May 2017 public strategic performance report that it exceeded its target of resolving 80 percent of MRAs within the prescribed time frame. In fiscal year 2016, the Bureau reported that 96 percent of MRAs were resolved within their stated time frame, and in the first *Triannual Performance Report* issued in 2017, the Bureau indicated that 92 percent of MRAs reached that mark.

When we shared our concerns about the apparent lack of alignment between what the measurement seems to convey and the Bureau's approach for calculating it, a senior official indicated that the Bureau intended for the MRA reporting measurement to reflect supervised entities' responsiveness to MRAs, not how quickly the Bureau resolves MRAs. Updating the description of the measurement to better reflect this original intent would help to align the description with the calculation approach. Based on our analysis, if the public interprets the measurement to mean that resolved MRAs have been formally closed, the previously reported percentages of MRAs resolved within their stated time frame have been overstated.

SEFL Employees Used Varying Approaches to Populate the *ERC Date* Field in SES

SEFL employees did not use a consistent approach for entering the appropriate date in the *ERC Date* field in SES. As noted above, a supervised entity can respond to MRAs by outlining the steps it has already taken to remediate an MRA. In these instances, we observed SEFL employees input dates that reflect a variety of events: (1) the date a supervised entity submitted a response letter, (2) the date the Bureau

⁹ The GPRA was enacted to promote greater effectiveness and accountability in federal programs. Congress amended the act in January 2011 when it passed the GPRA Modernization Act of 2010. The Bureau is subject to the GPRA and the GPRA Modernization Act of 2010, except for those requirements that conflict with the Dodd-Frank Wall Street Reform and Consumer Protection Act's grant to the Bureau of autonomy from the Office of Management and Budget's jurisdiction.

posted the response letter to SES, or (3) the date a supervised entity indicated that it remediated an MRA. In addition, a supervised entity may respond with the date it expects to remediate an MRA. In this instance, even though the entity indicated a potential future MRA remediation date, SEFL employees may rely on that date and enter the date from that response in the *ERC Date* field.

A senior official in one region acknowledged that SEFL employees had various understandings as to which date to enter in the *ERC Date* field. A Field Manager in another region indicated that the ERC date is not reported consistently among managers in that region because the preferred approach for populating dates in the *ERC Date* field in SES is not clear. Further, supervised entities send responses to the Bureau in inconsistent formats with varying levels of detail, likely increasing the level of judgment examiners must exercise in determining the appropriate ERC date.

The Bureau's *Data Entry Policy* states that the *ERC Date* field is the date an entity fully completes an MRA, as reported by the supervised entity. Although this guidance appears to be clear, there was confusion among SEFL employees regarding the appropriate date to use when populating the *ERC Date* field. SEFL employees across Bureau regions agreed that a more-specific definition of the *ERC Date* field would be beneficial.

Inconsistent data entry approaches for the *ERC Date* field contribute to inaccurate data in the Bureau's MRA reporting measurement. For example, if an entity submits a response stating that remediation will be completed by a date in the future that is past the due date and a SEFL employee enters the response date in the *ERC Date* field rather than the projected completion date, the entry may create the false impression that the open MRA has been remediated in a timely manner. Conversely, an entity's response may be incorrectly marked as late or past due, for example, when a supervised entity responds to the Bureau on the MRA due date but the entity's response is uploaded to SES after the due date and the *ERC Date* field is populated with the posting date. These varying approaches may affect the accuracy of the MRA reporting measurement. We did not attempt to determine the magnitude of their effect.

SEFL Does Not Have a Process to Identify Data Entry Errors in SES

We identified several data entry errors in SES that affect the reliability of the MRA reporting measurement. Based on the documents available for review, we found 60 instances of apparent data entry errors in the *ERC Date* field in 359 cases reviewed (17 percent).¹⁰ The Bureau also identified data entry errors in the *Due Date* field.

The limited scope of SEFL's current quality control process, which only reviews SES data at a high level, contributes to data entry errors going undetected. A senior SEFL official noted that the Bureau does not review or test individual MRAs to confirm that the ERC dates entered into SES correspond with the date specified in the letter sent by the supervised entity. This individual indicated that confirming the accuracy of all fields in SES would present challenges given the number of fields and the limited resources at Bureau headquarters.

¹⁰ Four hundred thirty-eight MRAs in our sample contained entity responses. Of those 438 MRAs, 359 had entity response letters and 79 did not. As a result, we could not confirm the accuracy of the associated ERC dates in SES for those 79 MRAs.

Resource constraints notwithstanding, two interviewees recommended that the Bureau implement a quality control process to ensure the accuracy of ERC dates entered in SES. A program official in one region indicated that one Regional Analyst was designated to enter all ERC dates for that region in an effort to standardize that region's approach to reporting. The official noted that this region also recently implemented its own quality control process to review the accuracy of ERC dates in SES. Data entry errors in the *ERC Date* and *Due Date* fields affect the accuracy of the MRA reporting measurement. In addition, inaccurate data entry in the *Due Date* field may affect the timing of SEFL's follow-up with an entity to obtain an update on MRA remediation.

Management Actions Taken

In March 2018, we learned that the Bureau amended the language in the MRA reporting measurement. The new language, updated in the *2018 Annual Performance Plan and Report*, replaces the word *resolved* in the "percentage of supervisory MRAs resolved by the prescribed timeframe" with *addressed*. The Bureau stated that it made this adjustment to better define the reporting measurement. We believe that the new language still may be prone to misinterpretation. We are recommending additional action to ensure that the measurement's description matches the supporting data.

Recommendations

We recommend that the Associate Director of SEFL

1. Clarify SEFL's purpose and intent for tracking and reporting its MRA follow-up activities and ensure that the calculation of the measurement and the description of the measurement clearly and accurately communicate the Bureau's recent and historical performance against those objectives.
2. Standardize the data entry expectations for the *ERC Date* and *Due Date* fields in SES and implement a quality control process to validate the accuracy of these entries.

Management's Response

In its response to our draft report, the Bureau concurs with recommendations 1 and 2. In response to recommendation 1, the agency notes that SEFL is in the process of (1) clarifying the purpose and intent for tracking and reporting its MRA follow-up activities and (2) revising the measurement's description to match the supporting data. The Bureau indicated that it will ensure that the revised definition accurately and clearly communicates the reporting measurement. In response to recommendation 2, the Bureau notes that the Office of Supervision Examinations (OSE) will review relevant directives, procedures, and guidance to develop and implement an action plan that ensures that data entry expectations for the *ERC Date* and *Due Date* fields are clear and standardized. Additionally, OSE's Quality Management Program will explore quality control processes that can be implemented to validate the accuracy of these entries.

OIG Comment

The actions described by the Bureau appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 2: The Bureau Has Not Formalized Expectations for Aspects of the MRA Follow-Up Process and Documentation Practices Are Inconsistent

We found through our interviews and our analysis of MRA follow-up documentation that employees across the Bureau's four regions have inconsistent MRA follow-up practices for (1) posting MRA follow-up documentation, (2) documenting the request and approval of extensions, and (3) documenting and communicating to supervised institutions the closure status of MRA items. The *CFPB Supervision and Examination Manual* states that workpapers used to support examination conclusions and relevant communications should be stored in SES upon the completion of an examination by the Examiner in Charge. The manual also states that the Field Manager is responsible for reviewing the adequacy of workpapers. Although existing guidance specifies the designated area in SES that should be used to store MRA follow-up documentation, examiners do not always follow this guidance. Further, the guidance does not address expectations for when documentation should be posted, how extensions should be documented, or how MRA closure dates should be documented in SES. Without this procedural guidance, SEFL employees used inconsistent MRA follow-up documentation practices across the agency's four regions, which resulted in SEFL not having support for all supervisory conclusions.

Procedural Expectations for Posting MRA Documentation Have Not Been Established

We found that there is limited procedural guidance for examination staff concerning the specific follow-up documentation that needs to be posted to SES, as well as management's expectations regarding when that documentation should be posted. MRA follow-up documentation includes, but is not limited to, (1) examination-related documents and relevant communications, (2) requests and approvals of MRA extensions, (3) communications regarding the closure of MRAs, and (4) evidence to support the review of MRAs. Although the *CFPB Supervision and Examination Manual* focuses on the format of the documentation collected, it does not specify which documents should be included as support for conclusions in SES. Additionally, SEFL's written guidance includes time frame requirements for updating certain fields in SES; however, it does not specify time frame requirements for posting MRA workpapers and documentation to SES. Without written guidance addressing document retention and time frame expectations, MRA decisions and corresponding status information may not be adequately supported in the system of record, and as monitoring work continues and new examination events occur, examination teams may not have a full picture of prior work completed from which to learn about the institution and its history.

SEFL's April 2017 standard operating guidance states that any MRA supporting workpapers should be uploaded in the "3000 Post-Exam Correspondence and Analysis folder" in SES.¹¹ We found that in practice, examiners did not follow this guidance consistently when posting and retaining MRA documentation. Specifically, we learned from SEFL officials that documents had been stored outside SES in a variety of locations, such as on secured shared drives, in email archives, and on SEFL employees' Bureau-owned computers. MRA documents stored in alternate locations were not readily available during our initial review, and only in some instances were SEFL employees able to provide us with specific documents that were not located in SES. Bureau employees eventually did post some of these documents to SES. In some instances, however, original communication documents between the Bureau and the entity could not be located.

Although interviewees frequently stated that MRA follow-up documents are stored in the designated 3000 Post-Exam Correspondence and Analysis folder in SES, we observed that in certain instances some documents had not been stored in this folder. We observed that documents were found in various other SES folders and in a variety of folders for examination events that occurred after the MRAs were issued.¹² In some instances, SEFL employees posted MRA documents to SES over 2 years after the MRA had been closed. Because SEFL employees do not follow a standardized practice for posting and retaining MRA documentation, SEFL may not have support for all supervisory conclusions and subsequent examination teams may have difficulty determining whether the appropriate steps were taken to address previously issued MRAs.

OIG Analysis of Bureau MRAs in SES

We analyzed 60 examinations, equally dispersed across the Bureau's four regions, that resulted in a total of 470 MRAs. We tested these 470 MRAs to assess SEFL's process for monitoring and addressing MRAs. During our review, we analyzed workpapers stored in SES for each examination in our sample.¹³ Additionally, we assessed (1) MRA follow-up review evidence and documents located in a designated folder;¹⁴ (2) dates entered into SES by SEFL examination staff; and (3) post-examination follow-up documentation in SES, including, but not limited to, entity response letters, extension requests and

¹¹ Although we reviewed examinations performed from January 2015 through March 2017, our fieldwork concluded in June 2018. As a result, we were able to review and assess MRAs classified as *open* that were subject to the April 2017 standard operating guidance.

¹² We observed that examiners also stored MRA follow-up documents in the Action Documents folder, the Entity Document folder, and other Case Document folder locations.

¹³ Although our testing population consisted of all examinations completed from January 2015 through March 2017, our sample of MRAs included follow-up work that occurred after April 2017. As a result, we included the requirements of the April 2017 standard operating guidance during our analysis of the 470 MRAs. SEFL issued updated guidance in February 2018. We did not include the February 2018 standard operating guidance as part of our fieldwork.

¹⁴ Interviewees noted that examiners use the 3000 Post-Exam Correspondence and Analysis folder as the designated folder in SES to store all workpapers and documents related to post-examination follow-up work, such as MRA follow-up reviews. Documentation stored in the 3000 Post-Exam Correspondence and Analysis folder typically includes, but is not limited to, entity response letters, communications relating to extensions of due dates, workpapers, and MRA closure letters.

approval documents, and other correspondence documentation.¹⁵ Interviewees confirmed that these follow-up documents are all key documents required for the MRA follow-up process.

Our sample consisted of 190 MRAs classified by SEFL as *open* and 280 MRAs classified as *closed* in SES (table 1). Because the 190 MRAs classified as *open* during our review were in varying stages of the MRA follow-up review process, our results may be understated. All stages of the MRA follow-up process could not be reviewed in all cases. Only those MRAs in the *Closed—Sufficient Compliance* status during our review period could be fully assessed.

Table 1. Distribution of MRAs Sampled

Status	Number
Total reviewed	470
Open	190
Closed	280
Sufficient compliance ^a	212
Incomplete ^b	19
Not reassigned ^c	1
Escalated MRA to MOU/resolution ^d	48
Extension granted (open or closed)	116

Source. Developed by the OIG based on an analysis of a sample of MRAs issued from January 2015 through March 2017.

^a *Closed—Sufficient Compliance* is the term used in SES when an MRA is closed. The term *closed* indicates that an MRA has been adequately completed.

^b *Closed—Incomplete* indicates that the entity partially addressed the provisions of the MRA; this status may also indicate that the original MRA was included in a new examination report or supervisory letter to address those actions that had not been adequately fulfilled by the entity.

^c *Closed—Not Reassigned* indicates that the Bureau may no longer supervise an entity or that an entity merged with another entity and SEFL employees decided not to transfer the MRA to the acquiring entity.

^d *Closed—Escalated MRA to MOU/Resolution* indicates that the MRA has been escalated to a more formal action, including an MOU or enforcement action. We found that in many cases when an MRA subaction is closed through escalation to an enforcement action, documentation to denote why the MRA is being elevated to an enforcement action is not present in SES. Additionally, interviewees noted that MRAs that are closed as a result of escalation to an MOU appear as duplicate actions in SES and are closed by internal methods once the matter is transferred to the Bureau’s Office of Enforcement. SEFL officials noted that these MRAs often do not have entity response letters, closure documents, or other communications with the entity because of their duplicative nature. We learned from SEFL officials that the Bureau is taking steps to reduce the creation of duplicate placeholder MRAs in SES.

¹⁵ An entity response letter is a direct communication from the entity subject to an MRA and often contains steps the entity has taken to address an MRA.

MRA Documentation Is Incomplete or Contains Incorrect Information

We identified 237 documentation issues (table 2) in SES, which can be grouped into five categories: (1) incorrect ERC dates, (2) MRA due date entry issues, (3) missing extension documents, (4) missing MRA closure communication to the supervised entity, and (5) missing ERC letters. Eighty of the issues were data entry errors, and we observed 157 instances (66 percent of all issues identified) in which MRA documents had not been posted to SES—this total is the sum of missing extension documentation (28), missing closure communication (50), and missing ERC letters from the entity (79).

Table 2. Distribution of Documentation Issues

ERC date data entry error	MRA due date data entry error	Missing extension documentation	Missing closure communication	Missing ERC letter from entity	Total issues identified
60	20 ^a	28	50 ^b	79	237

Source. Developed by the OIG based on an analysis of a sample of MRAs issued from January 2015 through March 2017.

Note. The total number of issues identified represents the sum of these five categories and is the aggregated population of issues identified across all four regions.

^a These errors resulted in the appearance of an extension in SES.

^b The 50 instances of missing closure communication are part of the 212 MRAs classified as *Closed—Sufficient Compliance* in SES (table 1).

Of the 470 MRAs in our sample, 438 reached the entity response phase; the remaining 32 MRAs classified by SEFL as *open* had not yet reached the required date of an entity response. Of the 438 MRAs with an entity response, there were 79 instances (18 percent) in which examiners had not posted the entity’s response letter to SES.¹⁶ Because the letters had not been posted, we could not assess the accuracy of the corresponding ERC dates in SES. Further, we found that 359 of the 470 MRAs in our sample contained entity response letters. However, 60 of the 359 MRAs (17 percent) with entity response letters had ERC dates that did not correspond to the dates in the ERC letters uploaded to SES. In these instances, the system of record did not contain adequate documentation to support the status of those MRAs. Additionally, the inaccuracies identified in the *ERC Date* field affect the reliability of the Bureau’s MRA reporting measurement.

The Documentation of Extension Requests and Approvals Was Inconsistent

SEFL employees approved some MRA due date extensions in SES without any supporting documentation to evidence communication with a supervised entity or approval by a Field Manager. Of the 116 MRAs that received extensions, 28 (24 percent) did not have documentation of the request or the approval of an extension in SES. SEFL has not issued guidance pertaining to the retention of documentation related to extension requests or expectations for the extension request review and approval process. The lack of a

¹⁶ These 79 MRAs contained ERC dates but did not have corresponding entity response letters uploaded to SES.

standardized process for the request and approval of extensions may add to the uncertainty of an institution addressing the MRA in a timely manner.

MRA Closure Dates Are Not Documented or Tracked in SES

We found that SEFL does not have a process for documenting MRA closure dates in SES. We learned from SEFL employees that the prior version of SES was a legacy system that could not be altered or upgraded to meet SEFL's needs. As a result, management developed and implemented a new database that was designed to initially mirror the prior version of SES and could be upgraded. One senior SEFL staff member indicated that a *Closed Date* field was one of the future planned enhancements. Interviewees in two regions indicated that adding such a field to SES would be valuable for MRA tracking and monitoring purposes. We believe that the lack of an MRA closure date field in SES hindered SEFL's ability to determine and monitor how long MRAs remain open.

In May 2018, SEFL management stated that it had created a *Closed Date* field in SES. SEFL also indicated that an MRA's closure status information was available in the *view history* tab in SES.¹⁷ Although we did not have the opportunity to ask interviewees about this functionality, our results suggest that examiners may not be aware of it.

MRA Closure Status Is Communicated to Supervised Entities Inconsistently

We found that the four regions are inconsistently communicating to supervised entities the closure status of MRAs. As noted in table 2, 50 of the MRAs (24 percent) that SEFL classified as *Closed—Sufficient Compliance* in SES did not include formal communication with the entity regarding the closure of the MRA. The April 2017 standard operating guidance requires the regions to issue formal communication to supervised entities upon the closure of an MRA; however, interviewees did not seem to be aware of this requirement.¹⁸ We found that the regions have developed their own practices to communicate this information to supervised entities.

The Bureau's four regions communicate MRA closures inconsistently through various methods, including through in-person conversations, phone calls, emails, and standardized close-out letters. In some instances, no MRA closure communication was provided at all. Interviewees from one region noted that the Regional Director did not encourage formal communication of MRA closures; therefore, teams in that region did not issue MRA closure letters and, in some instances, did not let a supervised entity know by

¹⁷ We learned about the existence of the *view history* tab in SES after the completion of our fieldwork. As a result, we did not assess the *view history* tab during our evaluation, nor did we assess employee awareness of the tab's functionality. The *view history* tab was not mentioned by any interviewee during our interview process, which included select examination staff, Regional Analysts, and SEFL officials.

¹⁸ The April 2017 standard operating guidance introduced the formal MRA close-out letter template. This template is required to be transmitted to the supervised entity when SEFL closes an MRA. Before April 2017, SEFL did not possess such a template.

any means that the MRA was closed.¹⁹ We attribute these inconsistent practices across the regions to the lack of awareness of the formal guidance defining management’s expectations for communicating the closure of MRAs. As a result, supervised entities are not always aware of the status of those action items.

The Regions Have Implemented Initiatives to Improve the MRA Follow-Up Process

The Bureau’s four regions have undertaken initiatives to increase the overall effectiveness of the MRA follow-up process. Interviewees noted the following:

- To ensure that critical documents are uploaded to SES in a timely manner, one region has created a shared mailbox that the Field Managers and the Regional Analysts can access.
- As of September 2017, another region has designated one Regional Analyst as responsible for populating the ERC dates in SES for the entire region.²⁰ This region initiated the change to implement a uniform standard for determining the ERC date to be added in SES.
- Another region created an offsite closure process for MRAs to improve the timeliness with which MRAs are closed. A Regional Analyst in this region worked directly with Bureau headquarters to create SEFL’s Type 21 policy.
- Regional Analysts in the remaining region play an active role throughout their region’s MRA follow-up process. Regional Analysts review documentation provided by entities in response to MRAs, populate the date fields in SES, determine whether the provisions of the MRA have been addressed, and forward their recommendations to the assigned Field Manager. Additionally, the Regional Analysts are copied on all supervised entity communications, and they upload the majority of supporting documents to SES. In our testing, this region had the lowest level of missing documentation.

Based on interviews with regional officials, we determined that Regional Analysts in the first three regions described above do not have the same level of involvement with their region’s MRA follow-up processes as those in the fourth region, even though the Regional Analysts in the first three regions had prior examination experience. Interviewees, including two Regional Analysts, noted that Regional Analysts could be more involved with the MRA follow-up process.

Management Actions Taken

In February 2018, SEFL issued additional procedures to provide guidance on creating Event IDs in SES for corrective action follow-ups.²¹ In addition, the February 2018 *Closing Action through Off-site Monitoring*

¹⁹ A SEFL official noted that a supervised entity within this region would need to conduct its own reconciliation of open MRAs during future examination events to determine whether MRAs were closed.

²⁰ This action did not have an effect on our analysis because of its timing. We noted that for this region, three of the MRAs that were in our sample received entity responses after September 2017 and 13 MRAs remained open at the end of our analysis. The remaining MRAs in our sample for this region received entity response letters before September 2017.

²¹ An Event ID is the OSE identifier for a case. Although SES assigns a unique identifier (known as the case number) to each examination, because of the length of this field, SEFL continues to use the Event ID to reference cases.

procedure seeks to enhance the corrective action follow-up process by implementing a requirement for all four regions to issue a closure communication to entities when a corrective action has officially been closed. This new process also includes a template to aid the regions in creating a standardized corrective action closure letter.²² In February 2018, SEFL issued additional guidance titled *Follow-up Review of Subactions*. The procedure provides further guidance on the use of Type 12 limited-scope reviews and Type 21 offsite reviews to manage corrective action follow-up activities.

In addition, the procedure highlights a new summary letter template, referred to as the Follow-up Subaction Internal Supervisory Memorandum, that is to be used when performing Type 21 activities.²³ This procedure requires examiners (1) to complete the memorandum and upload it to SES along with the other documentation gathered during a corrective action follow-up review and (2) to save the memorandum in the *Action Documents Folder* section of the corresponding examination's Event ID in SES.²⁴ Additionally, the *Follow-up Review of Subactions* procedure grants the regions additional scheduling autonomy to follow up on corrective actions outside the annual prioritization process through the Type 21 offsite follow-up process. This flexibility may allow regions to address corrective actions in a more timely manner.

Finally, in May 2018, SEFL created a *Closed Date* field in SES to document when corrective actions are closed. However, as of the end of our fieldwork in June 2018, *Closed Date* fields for the MRAs in our analysis had not been populated. SEFL officials noted that when used consistently, this additional field may allow the Bureau to track and monitor corrective actions more effectively. In addition, we learned that a new upgrade to SES's system capabilities will prevent an MRA's status from being updated from *open* to *closed* without a closed date. We did not assess these enhancements during the testing phase of our fieldwork.

Recommendations

We recommend that the Associate Director of SEFL

3. Implement guidance that establishes SEFL's expectations and training for new and existing policies that cover the following:
 - a. posting MRA documentation to SES, including what to post, when to post it, and to what SES folder it should be posted.
 - b. receiving, approving, and retaining MRA extension and closure communications.
 - c. documenting MRA closure dates in SES.

²² We learned that one region created the original closure template in 2015 because of a lack of guidance pertaining to the communication of corrective action closures.

²³ SEFL officials noted that the Follow-up Subaction Internal Supervisory Memorandum was a job aid template created by two Regional Analysts operating in separate regions. This job aid was created to "reduce the volume of inconsistencies" in the corrective action review process, including documentation issues.

²⁴ A corresponding examination's Event ID refers to the Event ID associated with the examination from which the MRA originated.

4. Develop training and monitoring activities to ensure that SEFL employees are aware of and comply with policies and procedures related to communicating the closure of MRAs to supervised entities.
5. Conduct testing to ensure that the Follow-up Subaction Internal Supervisory Memorandum has been implemented and is used consistently.
6. Evaluate whether more involvement from the Regional Analysts in the MRA follow-up process may help improve consistency.

Management's Response

In its response to our draft report, the Bureau concurs with recommendations 3–6. In response to recommendation 3, the Bureau states that it will develop guidance and training on expectations related to the posting of MRA documentation to SES, extension and closure communications, and the documentation of MRA closures in SES. In response to recommendation 4, the Bureau states that OSE will develop training on the Bureau's MRA closure policies and standards for supervised entities and develop monitoring activities to ensure employee adherence to the policies and standards. SEFL plans to determine the appropriate methods for and frequency of the trainings mentioned above. In response to recommendation 5, the Bureau notes that its OSE Quality Management Program will develop and conduct testing to ensure that the Follow-up Subaction Internal Supervisory Memorandum is implemented and used consistently. In response to recommendation 6, the Bureau states that SEFL will coordinate with OSE and its regional offices to determine whether more involvement by the Regional Analysts in the MRA follow-up process would help improve consistency.

OIG Comment

The actions described by the Bureau appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Appendix A: Scope and Methodology

The scope of our evaluation included a review of applicable policies, procedures, and guidance related to the Bureau’s MRA follow-up process, the testing of a sample of the MRAs issued by the agency, and a review of the provisions in those MRAs. We did not assess or validate the appropriateness of SEFL’s closure of MRAs. Additionally, we did not assess MRAs issued jointly by the Bureau and other prudential regulators.

During the scoping phase of this evaluation, our team learned that SEFL issues four types of corrective actions: (1) MRAs, (2) MOUs, (3) board resolutions, and (4) formal enforcement actions. We chose to assess MRAs because a program official indicated that SEFL’s OSE conducts 90 percent of the follow-up activities associated with MRAs.

To accomplish our objective, we interviewed SEFL employees involved in the MRA follow-up process. Specifically, we interviewed employees in four regions, including 17 Field Managers, 8 Examiners in Charge, 4 Regional Analysts, and 1 Senior Examination Manager. We also requested to interview officials from the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency—two other prudential regulators. The Federal Deposit Insurance Corporation agreed to speak with us; the Office of the Comptroller of the Currency declined our interview request but provided us with publicly available general guidance related to the agency’s corrective action follow-up process. Lastly, we reviewed Bureau policies and procedures, including those developed by the Bureau’s regional offices.

We requested that SEFL provide us with a list of all examinations completed from January 2015 through March 2017 that resulted in at least 1 MRA. In total, SEFL performed 263 examinations during that period that resulted in at least 1 MRA. We segmented the population of examinations by region and selected a nonstatistical sample of 15 examinations per region. In total, we selected 60 examinations that resulted in 470 MRAs. Our samples are judgmental, and the results of our analysis cannot be extrapolated to the entire population of MRAs issued by SEFL.

For each of the 470 MRAs in our sample, we assessed the following characteristics:

- the status (*whether open or closed*)
- the closure date
- the time between the ERC date and MRA closure date
- the type of examination or review that closed the MRA
- the method for communicating closure
- the documentation maintained to evidence follow-up and closure activities

We included the April 2017 standard operating guidance as a part of our testing because SEFL implemented the guidance before the beginning of our fieldwork. The timing of the other enhancements did not allow us to factor them into our testing.

We conducted our fieldwork from August 2017 through June 2018. We conducted this evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency in January 2012.

Appendix B: Management's Response

Bureau of Consumer Financial Protection
1700 G Street NW
Washington, D.C. 20552



December 3, 2018

Mr. Michael VanHuysen
Acting Associate Inspector General for Audit and Evaluations
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection
20th and Constitution Avenue
Washington, DC 20551

Dear Mr. VanHuysen,

Thank you for the opportunity to review and comment on the Office of Inspector General's draft report *The Bureau Can Improve Its Follow-Up Process for Matters Requiring Attention*.

The Bureau appreciates the OIG's review and agrees with the recommendations for improving practices related to Matters Requiring Attention. As noted in the report, the Bureau has taken actions to improve policies, procedures, and definitions around Matters Requiring Attention. Accordingly, some of the recommendations have already been implemented, and the Bureau is committed to moving toward implementing the remaining recommendations.

Thank you again for your review and the opportunity to provide comments on this report.

Sincerely,

Christopher D'Angelo
Associate Director,
Division of Supervision,
Enforcement, and Fair Lending

consumerfinance.gov



Paul Sanford
Assistant Director,
Office of Supervision Examinations
Division of Supervision,
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Responses to Specific Recommendations:

1. SEFL is currently in the process of 1) clarifying the purpose and intent for tracking and reporting on MRA follow-up activities, and 2) revising the measurement's description to match the supporting data. SEFL will ensure that the revised definition accurately and clearly communicates the reporting measurement.
2. The Office of Supervision Examinations (OSE) will review relevant directives, procedures, and guidance, and develop and implement an action plan to ensure data entry expectations for the *ERC Date* and *Due Date* fields are clear and standardized. Additionally, OSE's Quality Management Program will explore quality control processes that can be implemented to validate the accuracy of these entries.
3. As recommended, SEFL will develop guidance and training to cover expectations related to: posting MRA documentation to SES; MRA extension and closure communications; and documenting MRA closure in SES. SEFL will also determine the appropriate method for and frequency of the training.
4. OSE will develop training on the Bureau's policies and standards related to the closure of MRAs for supervised entities, and develop monitoring activities to ensure adherence to policies and standards. OSE will also determine the appropriate method for and frequency of the training and monitoring.
5. OSE's Quality Management Program will develop and conduct testing to ensure the Follow-up Subaction Internal Supervisory Memorandum has been implemented and is used consistently.
6. As recommended, SEFL will coordinate with OSE and the Regional offices to determine whether more involvement from the Regional Analysts in the MRA follow-up process may help improve consistency.



Abbreviations

Bureau	Bureau of Consumer Financial Protection
ERC	Entity Reported Complete
GPRA	Government Performance and Results Act of 1993
MOU	memorandum of understanding
MRA	Matter Requiring Attention
OIG	Office of Inspector General
OSE	Office of Supervision Examinations
SEFL	Division of Supervision, Enforcement and Fair Lending
SES	Supervisory and Examination System

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