OFFICE OF INSPECTOR GENERAL

Audit Report 2016-MO-C-016

The CFPB's Advisory Committees Help Inform Agency Activities, but Advisory Committees' Administration Should Be Enhanced

November 30, 2016

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

Report Contributors

Kimberly Perteet, Project Lead
Megan Taylor, Senior Auditor
Nathan Tenor, Auditor
Timothy Rogers, Senior OIG Manager for Management and Operations
Melissa Heist, Associate Inspector General for Audits and Evaluations

Abbreviations

ABC Office	Office of Advisory Board and Councils
ARC	Academic Research Council
CAB	Consumer Advisory Board
CBAC	Community Bank Advisory Council
CFPB	Consumer Financial Protection Bureau
CUAC	Credit Union Advisory Council
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FACA	Federal Advisory Committee Act
GAO	U.S. Government Accountability Office
GSA	U.S. General Services Administration
OIG	Office of Inspector General

Executive Summary:

The CFPB's Advisory Committees Help Inform Agency Activities, but Advisory Committees' Administration Should Be Enhanced

2016-MO-C-016 **November 30, 2016**

Purpose

To meet a Dodd-Frank Wall Street Reform and Consumer Protection Act requirement, in 2012 the Consumer Financial Protection Bureau (CFPB) established the Consumer Advisory Board (CAB). The CFPB also voluntarily established three other advisory committees. The Office of Inspector General conducted an audit to assess the CFPB's compliance with applicable laws and regulations as they relate to advisory committees and the CFPB's administration of its advisory committees, as well as to evaluate the advisory committees' effectiveness in informing the CFPB's activities.

Background

Section 1014 of the Dodd-Frank Wall Street Reform and Consumer Protection Act required the Director of the CFPB to establish the CAB to provide the agency with advice and consultation on consumer-related activities and products, as well as information on emerging practices in the consumer financial products or services industry. In addition to establishing the CAB, the Director of the CFPB voluntarily created the Community Bank Advisory Council (CBAC), the Credit Union Advisory Council (CUAC), and the Academic Research Council (ARC) to obtain advice from consumer financial industry experts. The CFPB's Office of Advisory Board and Councils is responsible for administering the CAB, the CBAC, and the CUAC, and the CFPB's Office of Research is responsible for administering the ARC. For the period we reviewed, the CFPB was not required to comply with the Federal Advisory Committee Act, which governs the activities of advisory committees; however, in December 2015, the Dodd-Frank Wall Street Reform and Consumer Protection Act was amended to require the CFPB to comply with the Federal Advisory Committee Act for each advisory committee.

Findings

Overall, we found that the CFPB advisory committees were generally effective and were operating in compliance with applicable laws and regulations for the period we reviewed. We also found that the CFPB should improve its administration of advisory committee activities. Specifically, the Office of Advisory Board and Councils and the Office of Research can improve their administrative processes by formally tracking the clearance process of documents before dissemination to advisory committee members, determining an optimal method to identify conflict of interests for certain members, retaining application materials, posting summaries of advisory committee meetings to the CFPB's Advisory groups webpage, and centrally retaining advisory committee expenditure information. In addition, we found that assessing advisory committee effectiveness can assist the CFPB in determining whether the committees provide the agency with information and perspectives that help inform agency activities.

Recommendations

Our report contains recommendations designed to improve the CFPB's administrative processes and to establish the formal monitoring of the effectiveness of advisory committee activities. In its response to our draft report, the CFPB concurs with our recommendations. The agency describes actions that have been and will be taken to improve the CFPB's administration of its advisory committees as well as the monitoring of advisory committee effectiveness.

Summary of Recommendations, OIG Report 2016-MO-C-016

Recommendation number	Page	Recommendation	Responsible office
1	11	Develop and implement a formal process to track the clearance of meeting materials prior to dissemination to advisory committee members.	Division of External Affairs and Division of Research, Markets, and Regulations
2	11	Standardize procedures to ensure that the application records of advisory committee members are maintained in accordance with the applicable records retention policies.	Division of External Affairs and Division of Research, Markets, and Regulations
3	11	Retain information on advisory committee expenditures.	Division of External Affairs and Division of Research, Markets, and Regulations
4	11	Post summaries of closed Consumer Advisory Board, Community Bank Advisory Council, and Credit Union Advisory Council meeting activities on the CFPB's Advisory groups webpage in accordance with their respective charters.	Division of External Affairs
5	11	Determine the optimal practice for identifying conflicts of interest for Academic Research Council members and align the Office of Research's policies and procedures accordingly.	Division of Research, Markets, and Regulations
6	12	Post summaries of closed Academic Research Council meeting activities on the CFPB's Advisory groups webpage at least annually.	Division of Research, Markets, and Regulations
7	14	Monitor the effectiveness of advisory committee activities.	Division of External Affairs and Division of Research, Markets, and Regulations

OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
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November 30, 2016

MEMORANDUM

TO: Zixta Martinez
Associate Director, Division of External Affairs
Consumer Financial Protection Bureau

David Silberman
Associate Director, Division of Research, Markets, and Regulations
Consumer Financial Protection Bureau

FROM: Melissa Heist
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2016-MO-C-016: *The CFPB's Advisory Committees Help Inform Agency Activities, but Advisory Committees' Administration Should Be Enhanced*

The Office of Inspector General has completed its report on the subject audit. We conducted this audit to review the Consumer Financial Protection Bureau's (CFPB) activities related to its advisory committees. Specifically, our objectives for this audit were (1) to assess the CFPB's compliance with applicable laws and regulations as they relate to advisory committees, (2) to assess the CFPB's administration of its advisory committees, and (3) to evaluate the advisory committees' effectiveness in informing the CFPB's activities.

Our report contains recommendations designed to improve the CFPB's administrative processes and to establish the formal monitoring of the effectiveness of advisory committee activities. 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 and will be taken to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation we received from CFPB personnel during our review. Please contact me if you would like to discuss this report or any related issues.

cc: Delicia Hand, Staff Director, Office of Advisory Board and Councils
Ron Borzekowski, Assistant Director, Office of Research
Elizabeth Reilly, Acting Chief Financial Officer, Acting Assistant Director, and Deputy Chief Financial Officer, Office of the Chief Financial Officer

Contents

Introduction

Objectives

The Office of Inspector General (OIG) conducted an audit of the Consumer Financial Protection Bureau's (CFPB) activities related to its advisory committees. Section 1014 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) required the Director of the CFPB to "establish a Consumer Advisory Board to advise and consult with the Bureau in the exercise of its functions under the Federal consumer financial laws, and to provide information on emerging practices in the consumer financial products or services industry, including regional trends, concerns, and other relevant information." The CFPB voluntarily established three additional advisory committees to provide expert advice on specific issues related to the CFPB's mission.

Our objectives were (1) to assess the CFPB's compliance with applicable laws and regulations as they relate to advisory committees, (2) to assess the CFPB's administration of the advisory committees, and (3) to evaluate the CFPB's advisory committees' effectiveness in informing the CFPB's activities. To achieve our objectives, we reviewed policies, procedures, and leading practices related to the CFPB's advisory committees. In addition, we tested select internal controls. The scope of our audit included the administration of the CFPB's four advisory committees—the Consumer Advisory Board (CAB), the Community Bank Advisory Council (CBAC), the Credit Union Advisory Council (CUAC), and the Academic Research Council (ARC)—from September 2012 to June 2015. Details on our scope and methodology are included in appendix A.

Background

In 2012, the Director of the CFPB established the CAB, as mandated by the Dodd-Frank Act, and voluntarily established three additional advisory committees: the CBAC, the CUAC, and the ARC. These four bodies, collectively referred to in this report as the *advisory committees*, are intended to provide the CFPB with feedback and recommendations to inform its policy development, research, rulemaking, and engagement functions. The CFPB's Office of Advisory Board and Councils (ABC Office) in the Division of External Affairs administers the CAB, the CBAC, and the CUAC, and the CFPB's Office of Research in the Division of Research, Markets, and Regulations administers the ARC.

The CFPB Advisory Committees

Federal advisory committees serve an important role in helping to shape programs and policies of the federal government. Advisory committee members use their expertise to inform and advise

federal officials on a broad range of issues affecting federal policies and programs. As part of the advisory committee process, the public is afforded an opportunity to provide input.

The CFPB advisory committees are made up of experts who contribute to the CFPB's knowledge of emerging practices in the consumer financial products or services industry, including regional trends, concerns, and other relevant information. CAB and ARC committee members serve three-year terms, and CBAC and CUAC advisory committee members serve two-year terms. The CFPB can renew members' terms beyond the initial appointment.

To maintain full committees, the CFPB solicits new members by advertising upcoming vacant positions on the CFPB's website and in the *Federal Register*. Interested members of the public submit applications to the CFPB, which are then reviewed by a panel of CFPB employees. Based on the review, candidates are interviewed and referred to the Director of the CFPB for final selection. New advisory committee members receive ethics training and sign nondisclosure agreements. New CAB, CBAC, and CUAC members also complete a financial disclosure form during the application process.[1]

The CFPB Created the CBAC and the CUAC to Obtain Advice From Institutions It Does Not Directly Supervise

The CFPB does not have supervisory authority over depository institutions or credit unions with total assets of $10 billion or less; therefore, it does not have frequent contact with these institutions. The CFPB created the CBAC and the CUAC to ensure that it is aware of the unique perspectives of these entities.

CFPB employees working on specific mission-related areas, known as subject-matter experts, solicit advisory committee members' advice and perspectives on a range of issues and research. CFPB subject-matter experts attend advisory committee meetings, present topics for discussion, and work with the committees on specific issues throughout the year.

Consumer Advisory Board

The CAB provides advice and nonbinding recommendations to the CFPB on the consumer financial products and services industry. Additionally, the CAB may identify and assess the effect on consumers and other market participants of new, emerging, and changing products, practices, or services. CAB members have expertise in the following areas, as stipulated in the Dodd-Frank Act:

- consumer protection
- consumer financial products or services
- community development
- fair lending
- civil rights

1. The CFPB does not collect a financial disclosure form from ARC members. For further discussion, see Finding 2.

Members also include representatives of depository institutions that primarily serve underserved communities and representatives of communities that have been significantly affected by higher-priced mortgage loans.

The CAB consists of at least 16 members. The Director of the CFPB must select at least 6 CAB members from recommendations made on a rotating basis by the Federal Reserve Bank Presidents, as required by the Dodd-Frank Act.

Community Bank Advisory Council

The CBAC provides advice, information, analysis, and nonbinding recommendations on the CFPB's regulation of consumer financial products or services. The CBAC has 15 to 20 members, who represent community banks with total assets of $10 billion or less. CBAC members cannot be affiliates of depository institutions with total assets of more than $10 billion.

Credit Union Advisory Council

The CUAC provides advice, information, analysis, and nonbinding recommendations on the CFPB's regulation of consumer financial products or services. The CUAC has 15 to 20 members, who represent credit unions with total assets of $10 billion or less. CUAC members cannot be affiliates of depository institutions with total assets of more than $10 billion.

Academic Research Council

The ARC provides advice and feedback on research, methodologies, data collection, and analytic strategies. The ARC has no more than nine members, who are academics from consumer finance or economics disciplines.

Advisory Committee Meetings

CFPB subject-matter experts and advisory committee members stated that meetings are the primary method by which advisory committees convey advice and opinions to CFPB officials, including the Director of the CFPB and CFPB subject-matter experts. These meetings are generally held in person, one to three times a year, and include sessions that are open to the public as well as closed sessions. At these meetings, CFPB subject-matter experts present topics for discussion and solicit advisory committee members' feedback on a range of issues related to their work at the CFPB. The Director of the CFPB and other senior leaders typically participate in advisory committee meetings.

Since 2012, the CAB has held field meetings that are open in their entirety to the public. In 2014, the CFPB expanded public access to the remainder of its in-person advisory committee meetings for the CAB, the CBAC, and the CUAC. In its 2015 in-person meeting, the ARC held its first session open to the public. Public sessions are intended to provide transparency into advisory committee activities, and according to a CFPB subject-matter expert, closed sessions allow advisory committee members to engage in more detailed conversations with the CFPB. The

charters for the CAB, the CBAC, and the CUAC require that summaries of closed sessions be made available to the public annually.

CFPB Policies and Procedures Related to the Advisory Committees

The CFPB established charters and policies for the administration of its advisory committees, including the following:

- **Advisory Committee Charters**—Each advisory committee has a charter that delineates the committee's purpose and membership and specifies the minimum number of meetings that must be held. Each charter also includes an anticipated operating budget amount to cover administrative support, travel, and any work directly related to each advisory committee's activities. For fiscal year 2015, the CFPB's estimates for operating expenditures—in most cases covering a two-year period—were $500,000 for the CAB; $300,000 for the CBAC; $300,000 for the CUAC; and $10,000 for the ARC. The CFPB renews each advisory committee's charter every two years.

- ***Policy for the Constitution and Management of Advisory Boards and Councils***—This policy defines the structure and transparency requirements for formal interactions between the CFPB and the advisory committee members. The policy allows the CFPB to use a public nomination process approved by the Director of the CFPB.

- ***Document Clearance Policy***—This policy describes the CFPB's requirements for the internal and external clearance and distribution of documents. The ABC Office also has documented procedures and informal practices that align with this policy to distribute materials to the CAB, the CBAC, and the CUAC.

Federal Government Leading Practices and Standards

The U.S. Government Accountability Office (GAO) has reported several leading practices to enhance advisory committee effectiveness and to help agencies leverage the advice of advisory committees to more efficiently and effectively address topics of importance to agencies. These practices include

- senior leadership demonstrating clear agency commitment
- finding a balance between responsiveness to the agency's need for advice on specific topics and the independence of committee members in how they address these topics
- leveraging resources through collaboration with similar groups
- evaluating the group's usefulness to identify future directions for the group or actions to improve its usefulness[2]

The Federal Advisory Committee Act (FACA) is intended to ensure that advice provided by advisory committees is objective and accessible to the public. During the scope of our audit, the CFPB determined that although it was not required to comply with FACA, it would follow the

2. U.S. Government Accountability Office, *Federal Advisory Groups*, GAO-12-472, March 2012.

spirit and intent of the law.[3] The U.S. General Services Administration (GSA) administers FACA and has identified several leading practices related to measuring advisory committee effectiveness. These leading practices correspond to those identified by GAO.[4] Specifically, GSA's leading practices on advisory committee effectiveness state that the success of an advisory committee

- is linked to precise, unambiguous knowledge of the objectives and purposes of a particular committee
- is generally judged in terms of actual contributions made toward decisionmaking

The Federal Managers' Financial Integrity Act of 1982 requires executive agencies to establish internal accounting and administrative controls that are consistent with standards prescribed by GAO. GAO's *Standards for Internal Control in the Federal Government* provides the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges. *Standards for Internal Control in the Federal Government* states that internal controls are an integral part of an organization's management that provide reasonable assurance that objectives are being achieved in areas related to the effectiveness and efficiency of operations and the reliability of financial reporting. In September 2014, GAO updated its standards to require agencies to clearly document internal controls, transactions, and other significant events in a manner that allows the documentation to be readily available for examination. In the context of the CFPB advisory committees, internal controls can help ensure the effective management of advisory committee administrative processes.

Commendable Action: The CFPB Has Voluntarily Adopted Some Provisions of FACA

Since the advisory committees' inception in 2012, the CFPB has voluntarily incorporated some FACA provisions into its advisory committee policies and procedures. For example, the CFPB created advisory committee charters that outline each committee's purpose; holds public sessions of advisory committee meetings; publishes timely notices of meetings; and designates a CFPB official to chair, attend, and adjourn meetings.

Subsequent to our audit, in December 2015, Congress passed the Consolidated Appropriations Act, 2016,[5] which amended section 1013 of the Dodd-Frank Act and now requires the CFPB to comply with FACA. CFPB officials stated that the agency is working toward full compliance with FACA by coordinating with GSA on the provisions it had not yet satisfied and updating advisory committee policies, procedures, and practices, as necessary.

3. Section 1011(a) of the Dodd-Frank Act established the CFPB as an independent bureau within the Federal Reserve System. FACA does not apply to any advisory committee established or used by the Federal Reserve System. However, in December 2015, Congress enacted the *Consolidated Appropriations Act, 2016*, Pub. L. No. 114-113, which amended section 1013 of the Dodd-Frank Act and requires the CFPB to comply with FACA.

4. GAO's leading practices are based on case studies of five federal advisory groups, some of which are not required to follow FACA.

5. Pub. L. No. 114-113.

Finding 1: The CFPB Fully Complies With the Consumer Advisory Board Provisions of the Dodd-Frank Act

We found that the CFPB complies with section 1014 of the Dodd-Frank Act, which required the Director of the CFPB to "establish a Consumer Advisory Board to advise and consult with the Bureau in the exercise of its functions under the Federal consumer financial laws, and to provide information on emerging practices in the consumer financial products or services industry, including regional trends, concerns, and other relevant information." To meet this requirement, the CFPB established the CAB in September 2012 and selected members through a public nomination process.

During the course of our review, we found that the CFPB complies with the Dodd-Frank Act requirement that CAB members be appointed from the following areas: consumer protection, consumer financial products or services, community development, fair lending, civil rights, underserved communities, and communities that have been significantly affected by higher-priced mortgage loans. The CFPB also satisfied other applicable Dodd-Frank Act provisions for the CAB, including the following:

- The Director of the CFPB must select at least six CAB members from recommendations made by the Federal Reserve Bank Presidents.
- The advisory board must convene at least twice per year.
- The CFPB must compensate board members who are not full-time federal government employees for related expenditures, such as travel expenses.

By establishing the CAB in accordance with the Dodd-Frank Act, the CFPB is positioned to regularly receive advice on matters of importance to the agency.

Finding 2: The CFPB Can Improve Its Management of Advisory Committee Administrative Processes

We found that although the ABC Office and the Office of Research established policies, procedures, guidance, and practices related to the administration of the advisory committees, the offices could more effectively administer these committees and adhere to internal policies and practices. GAO's *Standards for Internal Control in the Federal Government* states that internal controls provide reasonable assurance that management's objectives related to the effectiveness and efficiency of operations and financial reporting are being achieved. The CFPB's administrative processes for its advisory committees are documented in multiple written policies, procedures, and guidance documents; however, the evolutionary manner in which these documents were created has resulted in a missing internal control in one area as well as practices that do not align with formal policies and procedures. Establishing a comprehensive set of administrative policies and procedures would help assure the CFPB that its advisory committee administrative processes are continuously and consistently applied. In addition, comprehensive policies and procedures can help advisory committee program owners efficiently and effectively manage the committees.

The ABC Office and the Office of Research Do Not Track the Clearance of Advisory Committee Meeting Materials

The CFPB has several agency-wide controls in place for the handling of information prepared for external distribution; however, we found that the ABC Office and the Office of Research do not have an internal control to track the clearances required for advisory committee meeting materials. Our testing of internal controls did not reveal any instances of uncleared advisory committee documents distributed to advisory committee members. The ABC Office's *Staff Guidance—CAB Materials and Clearance* does not require the ABC Office to track advisory committee meeting materials disseminated to CAB, CBAC, and CUAC members; however, we consider such tracking to be a sound internal control to ensure that nonpublic information is handled properly and not inadvertently released to the public. GAO's *Standards for Internal Control in the Federal Government* states that a deficiency in internal control exists when the design, implementation, or operation of a control does not allow management to address related risks.

Materials disseminated at all CAB, CBAC, and CUAC meetings, as well as open ARC sessions, go through the CFPB's clearance process for internal and external document distribution as outlined in the CFPB's *Document Clearance Policy*.[6] In addition, the *Staff Guidance—CAB Materials and Clearance* document summarizes the *Document Clearance Policy* requirements applicable to CAB, CBAC, and CUAC documents. The guidance includes the requirement that subject-matter experts receive official CFPB clearance for meeting materials. Accordingly, the

6. The Office of Research has adopted informal practices for clearing documents for closed ARC sessions under the authority of the CFPB's *Document Clearance Policy*. According to an Office of Research official, the Chief Economist reviews the materials and, if necessary, discusses any changes that need to be made with the document owner before the materials can be disseminated to ARC members.

ABC Office relies on the subject-matter experts to provide only cleared materials for dissemination to CAB, CBAC, and CUAC members. The CFPB's *Document Clearance Policy* does not require the formal tracking of meeting material clearances, and neither the ABC Office nor the Office of Research formally tracks the clearance status of documents prior to dissemination.

The CFPB's policy and the ABC Office's supplemental guidance on document clearance partially adhere to GAO's *Standards for Internal Control in the Federal Government* by identifying the internal control responsibilities of the subject-matter experts in obtaining agency clearance for CAB, CBAC, and CUAC documents. However, the CFPB's policy and guidance do not meet the GAO standard that an agency's policies should include the appropriate level of detail to allow for effective monitoring of internal controls. In the absence of a formal internal control, employees in both offices rely on their knowledge of having received a clearance email.

In May 2016, the ABC Office informed the OIG that it is planning to update its *Staff Guidance—CAB Materials and Clearance* to include more detailed requirements for subject-matter experts to follow during the clearance process, including the level of required communication. The ABC Office is also planning to develop a document clearance checklist to track document clearances. Developing a formal process for tracking document clearances can help provide the CFPB with reasonable assurance that all documents have received the necessary clearances before being disseminated to advisory committee members.

The ABC Office and the Office of Research Have Established Several Internal Controls to Protect the Handling of Information for Advisory Committees

Several internal controls are in place to ensure the proper handling of information provided to advisory committee members. These controls include

- requiring that all advisory committee members sign a nondisclosure agreement, which certifies that members
  - will not disclose nonpublic information
  - will not use the information provided to them for personal purposes
  - will safeguard the nonpublic information provided to them
  - will return materials to the CFPB at the end of their tenure
- designating subject-matter experts as responsible for ensuring that materials for CAB, CBAC, and CUAC meetings are cleared prior to dissemination

The Candidate Application Records of Advisory Committee Members Are Not Consistently Maintained

The ABC Office and the Office of Research do not have standardized processes in place to ensure that the candidate application records of advisory committee members are maintained in accordance with the applicable CFPB records schedules. Although the ABC Office and the Office of Research were able to provide us with most of the application records that we requested, some of which contain personally identifiable information, there were instances in which officials were unable to do so. Specifically, we sampled the application materials of 43 advisory committee members, or about 50 percent of the advisory committee members. Of the advisory committee members sampled, we found that

- 5 of 38 (13 percent) CAB, CBAC, and CUAC members' financial disclosure statements were unavailable[7]
- 7 of 43 (16 percent) CAB, CBAC, CUAC, and ARC members' cleared background checks were unavailable

The CFPB's *Records Schedule for the Division of External Affairs—Office of the Consumer Advisory Board* requires that records relating to the appointment of members be retained for six years. Under this records schedule, all application materials from 2012 should be available until 2018.

According to an ABC Office official, some financial disclosure statements were not available because the documents were maintained by an employee who was on long-term leave during the course of our audit; the documents could not be located by other office staff. In addition, the ABC Office received the results of some applicant background checks verbally and did not create an associated written record.

In February 2016, an ABC Office official stated that the ABC Office will formally document all cleared background checks that it receives verbally. Maintaining formal records allows the CFPB to have candidate application information readily available when necessary. Further, consistently maintaining these records can also provide the CFPB with reasonable assurance that those records, which may contain personally identifiable information, are safeguarded in a proper manner.

The ABC Office and the Office of Research Did Not Regularly Post Advisory Committee Meeting Summaries

We found that the CFPB did not routinely post advisory committee meeting summaries for meetings closed to the public. Specifically, the CFPB's Advisory groups webpage had the following summaries posted to it during the course of our fieldwork:

- Meeting summaries for the 2012 and 2013 CAB meetings, but not the 2014 and 2015 meetings. Videos of the public sessions were posted for the 2014 and 2015 CAB meetings.

- Meeting summaries for the 2012, 2013, and 2014 CBAC meetings, but not the 2015 meetings. Videos of public sessions were posted for the 2015 CBAC meetings.

- Meeting summaries for the 2012, 2013, and March 2014 CUAC meetings, but not the October 2014 meeting or the 2015 meetings. Videos of public sessions were posted for the October 2014 meeting and the 2015 CUAC meetings.

- Meeting summaries for the 2012, 2013, and 2014 ARC meetings, but not the 2015 meeting.

Section 9 of the 2014 CAB, CBAC, and CUAC charters requires that the CFPB issue, at least annually, a summary of the committee's activities during meetings that are closed to the public.

7. Because the Office of Research does not collect financial disclosure statements from ARC members, those members are not included in this analysis.

Although the ARC charter does not have a similar requirement, the ARC posted summaries in 2012 through 2014.[8]

The ABC Office officials stated that in 2014, the CFPB began receiving detailed transcripts of advisory committee meetings from the transcription service vendor instead of the abridged transcripts that it had previously received. The transcripts increased from approximately 40 pages to approximately 300 pages per advisory committee meeting. The ABC Office official stated that creating CAB, CBAC, and CUAC meeting summaries from the detailed transcripts took more time, resulting in a backlog for the ABC Office. The ABC Office official noted that the CFPB is addressing this backlog of meeting summaries. These summaries are in the process of being cleared internally and will be posted to the CFPB's Advisory groups webpage. Posting written summaries of advisory committee meetings in a timely manner will give members of the public greater insight into advisory committee activities.

The Office of Research Does Not Have a Standard Practice to Identify Potential Conflicts of Interest for ARC Members

We found that the Office of Research has several practices for identifying potential conflicts of interest for ARC members; however, we could not independently confirm that two of the three practices were followed during the period of our review.

- The first practice, which is included in the draft *2014 ARC Nominations and Selection Process*, states that ARC members complete a financial disclosure form. This form is intended to identify potential conflicts of interest. Our testing showed, however, that the Office of Research did not collect a financial disclosure form.

- The second practice, according to an Office of Research official, is that ARC members are provided with a conflict of interest disclosure form to be completed on a voluntary basis. We found that none of the members in our sample signed the voluntary conflict of interest disclosure form.

- The third practice, according to an Office of Research official, is that ARC members are verbally asked for their affiliations during the onboarding process. If a potential conflict is identified, the office works with the Legal Division and the ABC Office to determine whether the potential conflict may restrict the member from participating on the ARC. The CFPB identified an instance in which the Office of Research and the Legal Division discussed an affiliation of an ARC member in 2015.

An Office of Research official informed us that during the course of our audit, the CFPB was in the process of determining the appropriate practice for identifying potential conflicts of interest for ARC members. Establishing a standard practice for identifying potential conflicts of interest can help ensure that all members are treated consistently. Further, a standard practice can also help the CFPB reduce its reputational risk that ARC members may have conflicts of interest while serving on the advisory committee.

8. The 2012 CBAC, CUAC, and ARC charters did not have a requirement that at least annually, summaries of closed meetings be made available. In practice, however, all the advisory committees posted summaries of advisory committee meetings on the CFPB's Advisory groups webpage during this time period.

Advisory Committee Expenditure Information Is Not Centrally Retained

We found that advisory committee expenditure information, for example, information on the actual cost for committee members' travel and advisory committee meeting logistics, is not centrally retained by the ABC Office or the Office of Research. In practice, the records are maintained within two functions of the Office of the Chief Financial Officer. The CFPB's *Policy for the Constitution and Management of Advisory Board and Councils* identifies the ABC Office as the responsible entity for ensuring advisory committee–related compliance with all CFPB policies. One such policy is the 2013 *Records Schedule for the Division of External Affairs—Office of the Consumer Advisory Board*, which requires that advisory committee management records be maintained for six years.

During the course of our audit, the ABC Office informed us of planned process improvements to its retention of information about the advisory committee expenditures, and in May 2016, an ABC Office official said that the office is working with the Office of the Chief Financial Officer to establish greater oversight of advisory committee expenditures.

Centrally maintaining advisory committee expenditure records can provide reasonable assurance that the ABC Office is in compliance with the CFPB's policy on the retention of advisory committee management records. Additionally, centrally maintained records can also help both the ABC Office and the Office of Research meet their new FACA requirement to make all advisory committee expenditures available to the public in a timely manner.

Recommendations

We recommend that the Associate Directors of the Division of External Affairs and the Division of Research, Markets, and Regulations

1. Develop and implement a formal process to track the clearance of meeting materials prior to dissemination to advisory committee members.

2. Standardize procedures to ensure that the application records of advisory committee members are maintained in accordance with the applicable records retention policies.

3. Retain information on advisory committee expenditures.

We recommend that the Associate Director of the Division of External Affairs

4. Post summaries of closed CAB, CBAC, and CUAC meeting activities on the CFPB's Advisory groups webpage in accordance with their respective charters.

We recommend that the Associate Director of the Division of Research, Markets, and Regulations

5. Determine the optimal practice for identifying conflicts of interest for ARC members and align the Office of Research's policies and procedures accordingly.

6. Post summaries of closed ARC meeting activities on the CFPB's Advisory groups webpage at least annually.

Management's Response

In their response to our draft report, the Associate Director of the Division of External Affairs and the Associate Director of the Division of Research, Markets, and Regulations concur with these recommendations and highlight instances in which progress has been made on our report's recommendations. Specifically, in response to recommendation 1, the Associate Directors note that the ABC Office will work with the Office of the Executive Secretary to update the *Staff Guidance—CAB Materials and Clearance* document to require the tracking of cleared materials in addition to the Office of the Executive Secretary's existing tracking. For recommendation 2, the Associate Directors state that changes were incorporated into the CFPB's applications and selections process in 2016 to ensure that the application records of advisory committee members are maintained in accordance with the applicable records retention policies.

Regarding recommendation 3, the Associate Directors state that the ABC Office is currently working with the Office of the Chief Financial Officer to centrally retain committee expenditures. For recommendation 4, the Associate Directors note that the CFPB has reduced its meeting summary backlogs and has now posted 80 percent of meeting summaries to the CFPB's Advisory groups webpage. The Associate Directors anticipate that the remaining summaries will be posted by December 2016. In response to recommendation 5, the Associate Directors note that the CFPB has identified the optimal practice for identifying conflicts of interest for ARC members, with implementation planned in 2017. For recommendation 6, the Associate Directors note that all meeting summaries for the ARC are posted to the CFPB's Advisory groups webpage.

OIG Comment

The actions described by the Associate Directors are generally responsive to our recommendations. We plan to follow up on the CFPB's actions to ensure that the recommendations are fully addressed.

Finding 3: Assessing Advisory Committee Activities Can Help Ensure That Committees Remain Effective

We found that both the CFPB and the advisory committee members agree that advisory committees operate effectively; however, neither the ABC Office nor the Office of Research has a method in place to assess the effectiveness of the advisory committees. GAO and GSA identify the evaluation of advisory committee effectiveness as a leading practice in ensuring a committee's success. The CFPB established the advisory committees in 2012 but did not adopt a formal method to assess committee effectiveness at that time. Both offices state that they plan to assess the effectiveness of advisory committee activities. Assessing advisory committee effectiveness would allow the CFPB to determine whether the agency continues to receive information and perspectives that inform CFPB activities.

The CFPB Does Not Fully Measure the Effectiveness of Advisory Committee Activities

The advisory committee members and CFPB subject-matter experts we spoke with stated that the committee members provide useful information to the CFPB on a range of topics related to consumer financial protection. According to CFPB subject-matter experts, the information provided by advisory committee members has resulted in better-informed regulation and research. The ABC Office monitors CAB, CBAC, and CUAC activities through the Division of External Affairs' quarterly performance review. This monitoring focuses on committee outputs, specifically, the number of meetings held or topics discussed.

GAO and GSA emphasize the importance of measuring the effectiveness of advisory committee activities. Specifically, GAO states that agencies should evaluate advisory committee usefulness to identify the future direction for the group or actions to improve its usefulness. In addition, GSA links the success of an advisory committee to a precise, unambiguous knowledge of the objectives and purposes of the particular committee. GSA further states that the success of an advisory committee is generally judged in terms of actual contributions made toward decisionmaking.

The CFPB's method for measuring the effectiveness of its advisory committees differs from the methods described in the GAO and GSA leading practices. According to an ABC Office official, the CFPB measures advisory committee effectiveness as the number of meetings that advisory committee members hold to share information with the CFPB. In our opinion, the number of advisory committee meetings is an output measure and, as such, does not fully evaluate the effectiveness of advisory committee activities.

The CFPB is considering implementing an additional effectiveness measure that aligns more closely with the GAO and GSA leading practices. Specifically, the ABC Office is working with the Office of Management and Budget to develop a survey for its advisory committee members on the effectiveness of advisory committee activities. Monitoring advisory committee effectiveness allows the CFPB to determine whether the agency continues to receive information and perspectives that inform CFPB activities.

Recommendation

We recommend that the Associate Directors of the Division of External Affairs and the Division of Research, Markets, and Regulations

7. Monitor the effectiveness of advisory committee activities.

Management's Response

In their response to our draft report, the Associate Director of the Division of External Affairs and the Associate Director of the Division of Research, Markets, and Regulations concur with our recommendation. The Associate Directors note that the CFPB will more closely monitor the effectiveness of advisory committee activities. The response states that the CFPB has begun to administer annual surveys of advisory committee members that, among other things, solicit input on the effectiveness of the advisory committees.

OIG Comment

The actions described by the CFPB to obtain formal feedback from advisory committee members is one means to measure the effectiveness of advisory committee activities. We emphasize, however, the need to consider additional measures to monitor advisory committee effectiveness, specifically, measures similar to those described by GAO and GSA. We plan to follow up on the CFPB's actions to ensure that this recommendation is fully addressed.

Appendix A
Scope and Methodology

The objectives of our audit were (1) to assess the CFPB's compliance with applicable laws and regulations as they relate to advisory committees, (2) to assess the CFPB's administration of its advisory committees, and (3) to evaluate the advisory committees' effectiveness in informing the CFPB's activities. The scope of our audit included the administration of the CFPB's four advisory committees—the CAB, the CBAC, the CUAC, and the ARC—from September 2012 to June 2015.

To assess compliance, we reviewed applicable laws and regulations, analyzed CFPB policies for compliance with the laws and regulations, and interviewed CFPB officials. We did not conduct compliance testing related to FACA because the CFPB was not required to follow FACA during the scope of our review. Congress passed the Consolidated Appropriations Act, 2016, in December 2015, which amended section 1013 of the Dodd-Frank Act and requires the CFPB to comply with FACA.

To assess the CFPB's administration of its advisory committees, we evaluated the CFPB's policies and procedures for advisory committees, reviewed publicly available documents, and analyzed advisory committee expenditure records. As part of our fieldwork, we observed public and closed sessions of advisory committee meetings from September 2015 to February 2016 and interviewed CFPB officials with advisory committee responsibilities.

In addition, we identified, analyzed, and tested internal controls related to the CFPB's advisory committees. Specifically, we performed

- 100 percent testing of controls related to
  - the posting of public meeting notices
  - the posting of closed meeting summaries and transcripts

- 50 percent testing of controls related to
  - the solicitation and selection of members
  - the ethics training of members

- 100 percent testing of advisory committee expenditures

To evaluate the effectiveness of advisory committee activities, we reviewed the ABC Office's strategic and performance planning documents, CAB annual reports, and federal government leading practices for effective advisory committees. We also consulted with two federal financial regulators on their advisory committee activities. Lastly, we interviewed selected CFPB subject-matter experts and advisory committee members.

We conducted the majority of our audit fieldwork from October 2015 to February 2016, with supplemental work conducted in May 2016. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B
Management's Response

Consumer Financial Protection Bureau

1700 G Street NW, Washington, DC 20552

November 18, 2016

Ms. Melissa Heist
Associate Inspector General for Audits and Evaluations
Board of Governors of the Federal Reserve System and
Consumer Financial Protection Bureau
20th and Constitution Avenue
Washington, DC 20551

Dear Ms. Heist,

Thank you for the opportunity to review and comment on the Office of the Inspector General's draft report "*The CFPB's Advisory Committees Help Inform Agency Activities, but Advisory Committees' Administration Should Be Enhanced*." We have reviewed the report and concur with the draft recommendations.

The Bureau is committed to improving our administrative processes and ensuring the effectiveness of our advisory committees. We agree with the process improvements included in your recommendations and, in most instances, have already adopted the recommended process improvements to ensure more sound administration of our advisory committees.

Thank you again for your review. We provide the following comments for each recommendation.

Sincerely,

Zixta Martinez
Digitally signed by Zixta Martinez
Date: 2016.11.18 09:46:48 -05'00'

Zixta Martinez
Associate Director, Division of External Affairs

David Silberman
Digitally signed by David Silberman
Date: 2016.11.18 09:58:00 -05'00'

David Silberman
Associate Director, Division of Research, Markets, and Regulations

consumerfinance.gov

Recommendation 1. Develop and implement a formal process to track the clearance of meeting materials prior to dissemination to advisory committee members.

Recommendation 2. Standardize procedures to ensure that the application records of advisory committee members are maintained in accordance with the applicable records retention policies.

We concur with these recommendations. The office of Advisory Board and Councils and the Office of the Executive Secretary will work together to update the *Staff Guidance – CAB Materials and Clearance* document to include a requirement to track the clearance of materials, in addition to the tracking currently conducted by the Office of Executive Secretary, to address Recommendation 1. Recommendation 2 has been addressed through changes incorporated into the CFPB's applications and selections process in fiscal year 2016.

Recommendation 3. Retain information on advisory committee expenditures.

We concur with this recommendation. The office of Advisory Board and Councils is currently working with the Office of the Chief Financial Officer to centrally retain committee expenditures.

Recommendation 4. Post summaries of closed Consumer Advisory Board, Community Bank Advisory Council, and Credit Union Advisory Council meeting activities on the CFPB's Advisory groups webpage in accordance with their respective charters.

We concur with this recommendation. The Bureau has significantly reduced the backlog of meeting summaries and 80 percent of meeting summaries have been posted to the CFPB's Advisory group webpage. The remaining summaries will be posted by December 2016.

Recommendation 5. Determine the optimal practice for identifying conflicts of interest for Academic Research Council members and align the Office of Research's policies and procedures accordingly.

We concur with this recommendation. The Bureau has identified the optimal practice for identifying conflicts of interests for Academic Research Council members. This practice will be implemented during the upcoming FY 17 applications and selections process.

Recommendation 6. Post summaries of closed Academic Research Council meeting activities on the CFPB's Advisory groups webpage at least annually.

We concur with this recommendation. All meeting summaries for the Academic Research Council have been posted to the CFPB's Advisory groups webpage.

Recommendation 7. Monitor the effectiveness of advisory committee activities.

We concur with this recommendation. The Bureau will more closely monitor the effectiveness of advisory committee activities. The CFPB, for example, has already begun administering annual surveys of advisory committee members which, among other things, solicits input on the effectiveness of the advisory committees.

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

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