SEMIANNUAL
REPORT TO CONGRESS
October 1, 2013–March 31, 2014

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

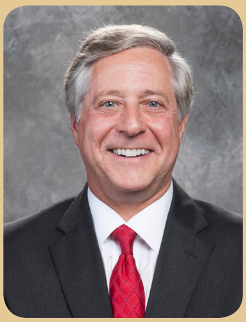
SEMIANNUAL
REPORT TO CONGRESS
October 1, 2013–March 31, 2014

Office of Inspector General

Board of Governors of the Federal Reserve System

Consumer Financial Protection Bureau

Message From the Inspector General



Mark Bialek
Inspector General

As I reflect on the last six months, I am reminded of the important role agency leadership plays in ensuring that our work contributes to the improvement of the programs and operations of the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB). In January, we bade farewell to Board Chairman Ben Bernanke. The former Chairman was extremely committed to effective oversight, and we greatly appreciated his strong support for the work of the Office of Inspector General (OIG). He is succeeded by Chair Janet Yellen. In her confirmation hearing before the Senate Committee on Banking, Housing, and Urban Affairs, as well as in her remarks at her ceremonial swearing in, Chair Yellen voiced her pledge to transparency and accountability and her intention to build on Chairman Bernanke's legacy of openness. While Vice Chair, Chair Yellen was steadfast in her support of our mission. I have every confidence that, as Chair, she will remain vigilant in ensuring robust oversight at the Board, and I look forward to building an even stronger relationship with her.

We also appreciate CFPB Director Richard Cordray's emphasis on the importance of oversight as the CFPB continues to establish its programs and as its operations mature. During this reporting period, we significantly expanded our reviews of the CFPB to help the agency improve its programs and operations. In addition, at the request of Director Cordray, Deputy Inspector General Tony Ogden and I spoke to CFPB staff at an invigorating lunch-and-learn session about the OIG's mission, vision, values, and oversight role.

During this reporting period, we began work to initiate and implement the goals and objectives outlined in our *Strategic Plan 2013–2016*. This is a foundational year for us, as we lay the groundwork for enhancing timely, high-quality products and services; developing our workforce; engaging our stakeholders; and enhancing our internal operations. In particular, we embarked for the first time on developing a list of major management challenges for the Board and the CFPB. We believe this undertaking is important because it will enable us to focus our work on high-risk areas and to help Board and CFPB leaders by highlighting those challenges that, in our opinion, are critical for the agencies to confront to successfully accomplish their missions. We will report more fully on these challenges, as well as provide a progress report on our *Strategic Plan*, in the next *Semiannual Report to Congress*.

I look forward to working with Chair Yellen and Director Cordray on the challenges ahead as we continue to broaden the scope of the issues we review. As always, I would like to thank all OIG staff members for their continued commitment to helping the OIG be *the* trusted oversight organization of the Board and the CFPB.

Sincerely,

Mark Bialek
Inspector General
April 30, 2014

Contents

Highlights 1

Introduction 7

Audits, Evaluations, and Inspections 11

Board of Governors of the Federal Reserve System 12

Consumer Financial Protection Bureau 32

Failed State Member Bank Reviews 45

Material Loss Reviews 45

Nonmaterial Loss Reviews 45

Investigations 49

State Member Banks 49

Bank Holding Companies 51

Hotline 59

Legal Services 61

Communications and Coordination 63

Congressional Coordination and Testimony 63

Council of Inspectors General on Financial Oversight 63

Council of the Inspectors General on Integrity and Efficiency and Inspector General Community Involvement 64

Financial Regulatory Coordination 64

Peer Reviews 67

Abbreviations 69

Highlights

The Office of Inspector General (OIG) continued to promote the integrity, economy, efficiency, and effectiveness of the programs and operations of the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB). The following are highlights of our work during this semiannual reporting period.

Audits, Evaluations, and Inspections

- We issued 9 reports concerning the Board and 6 concerning the CFPB.
- We have 23 ongoing projects.

Below are some of the highlights.

The Board's Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project. The Martin Building construction and renovation project is projected to cost $280.4 million, and it has been identified as a strategic theme in the Board's strategic framework. We assessed how the cost estimates for the project were determined and how these costs will be managed. We found that the project team did not adequately maintain documentation supporting its conceptual construction cost estimate for the Martin Building project and that support was not available for several line items. We also found that the conceptual construction cost estimate contained errors and inconsistencies. In addition, the Board has not yet established a contractual stated cost limitation with the architecture and engineering firm and has not required the firm to submit cost-saving items to aid in cost management. The Board has taken several steps since 2011 to improve management of the Martin Building project. We made six recommendations to improve the Board's cost estimation process and cost management and recordkeeping practices.

The Efficiency and Effectiveness of the CFPB's Supervisory Activities. We conducted this evaluation to assess the operational efficiency and effectiveness of the CFPB's supervision program.

The CFPB's supervision activities include (1) prioritizing and scheduling examinations, (2) planning and executing examinations, and (3) reporting findings in the form of reports of examination or supervisory letters. Since it began operations in July 2011, the CFPB has made significant progress toward developing and implementing a comprehensive, nationwide supervision program for depository and nondepository institutions. While we recognize the considerable efforts associated with the initial development and implementation of the program, we believe that the CFPB can improve the efficiency and effectiveness of its supervisory activities. Specifically, the CFPB needs to (1) improve its reporting timeliness and reduce the number of examination reports that have not been issued, (2) adhere to its unequivocal standards concerning the use of standard compliance rating definitions in its examination reports, and (3) update its policies and procedures to reflect current practices.

CFPB management indicated that it had taken various measures to address certain findings in our report. We made 12 recommendations designed to assist the CFPB in strengthening its supervision program.

The CFPB's Approach to Integrating Enforcement Attorneys Into Examinations. Our evaluation objectives were to assess (1) the potential risks associated with the CFPB's approach to integrating enforcement attorneys into examinations and (2) the effectiveness of any safeguards that the CFPB adopted to mitigate the potential risks associated with this examination approach. We found that the CFPB should determine the appropriate level of enforcement attorney integration into examinations by reassessing the potential risks associated with the practice against the potential benefits and document the results of the assessment. The CFPB's policy describing the integrated approach did not sufficiently detail how it should be implemented. As a result, CFPB staff's execution of the policy, as well as their messaging to supervised institutions concerning the role of enforcement attorneys, varied considerably. According to CFPB senior officials, the agency has reconsidered its approach regarding integrating enforcement attorneys into examinations. New policies and procedures reflecting the revised approach became effective in November 2013. We made seven recommendations in our report.

The Board's and the CFPB's Information Security Programs. To meet our annual Federal Information Security Management Act of 2002 (FISMA) reporting responsibilities, we reviewed the information security programs and practices of the Board and the CFPB. FISMA requires federal agencies to develop, document, and implement an agency-wide information security program. FISMA also requires each Inspector General (IG) to conduct an annual independent evaluation of the agency's information security program and practices.

Overall, we found that the Board's Chief Information Officer is maintaining a FISMA-compliant approach to the Board's information security program that is generally consistent with requirements established by the National Institute of Standards and Technology (NIST) and the Office of Management and Budget; however, we identified opportunities for improvement in the areas of incident response and reporting, security training, and contractor systems. During the past year, the Board's Information Security Officer has continued to make progress in implementing an enterprise information technology (IT) risk management framework and a continuous monitoring program; however, additional steps are needed to fully implement programs that are consistent with FISMA requirements. We made two recommendations to assist the Board in strengthening its information security program.

For the CFPB, we found that while the agency has taken several steps to develop, document, and implement an information security program that is consistent with FISMA requirements, there are opportunities for improvement in several information security areas. We made four recommendations designed to assist the CFPB in strengthening its information security program in the areas of continuous monitoring, configuration management, security training, and incident response and reporting.

The Relocation of the Board's Data Center. We determined that the Board is following a structured approach to planning the relocation of its data center, and Board staff are actively engaged in the planning and decisionmaking for the project. The Board should take additional action, however, to keep the project progressing to meet requirements and remain on schedule. First, the Board has not reevaluated the overall funding for relocating the data center since initially approving the consultant's cost projection of $201.5 million in June 2012 as the overall budget for the project. This figure was an initial estimate of project costs rather than a detailed budget for the project. Since the initial estimate, design changes have occurred. Second, the construction phase of the data center relocation project has an aggressive schedule with several identified risk areas; any delays in the data center project may impact the Martin Building renovation schedule. We made two recommendations in our report.

Investigations

- We opened 12 cases and closed 1.
- We referred 8 matters to the U.S. Department of Justice.
- We had 9 indictments and were responsible for nearly $339 million in criminal fines, restitution, and forfeiture.

Our most significant cases are highlighted below.

Sentencing of Former Chief Executive Officer of the Bank of the Commonwealth. On November 6, 2013, the former Chief Executive Officer and Chairman of the Board for the Bank of the Commonwealth, Norfolk, Virginia, was sentenced to 23 years in prison, followed by 5 years of supervised release, for conspiracy to commit bank fraud, false entry in a bank record, unlawful participation in loans, false statements to a financial institution, misapplication of bank funds, and bank fraud. The court further ordered the defendant to pay $333.6 million in restitution to the Federal Deposit Insurance Corporation (FDIC), which has sustained at least $333 million in losses. The defendant was found guilty on May 24, 2013, after a 10-week jury trial. The defendant's crimes contributed to the failure of the Bank of the Commonwealth on September 23, 2011. Bank of the Commonwealth is a state member bank regulated by the Board.

Guilty Pleas for Seven Former Bank Officers of First National Bank of Savannah. Seven former officers of First National Bank of Savannah pleaded guilty before a United States District Court Chief Judge, Southern District of Georgia, for their role in a massive loan-fraud scheme against First National Bank of Savannah and other federally insured banks. The defendants pleaded guilty to various charges in a 47-count indictment returned by a federal grand jury in Savannah in January 2013. According to evidence presented during the guilty plea hearings, as First National Bank of Savannah's financial condition began to deteriorate, the defendants concealed from the bank, the bank's board of directors, and federal regulators millions of dollars in nonperforming loans. First National Bank of Savannah failed and was taken over by the FDIC on June 25, 2010. The FDIC estimates that the bank's failure will cost the Deposit Insurance Fund (DIF) over $90 million. First National Bank of Savannah is a subsidiary of First National Corporation, a bank holding company regulated by the Board.

Introduction

Congress established the OIG as an independent oversight authority of the Board, the government agency component of the broader Federal Reserve System, and the CFPB. In fulfilling this responsibility, the OIG conducts audits, evaluations, investigations, and other reviews related to Board and CFPB programs and operations. By law, the OIG is not authorized to perform program functions.

Consistent with the Inspector General Act of 1978, as amended (IG Act), our office has the following responsibilities:

- to conduct and supervise independent and objective audits, investigations, and other reviews related to Board and CFPB programs and operations to promote economy, efficiency, and effectiveness within the Board and the CFPB
- to help prevent and detect fraud, waste, abuse, and mismanagement in Board and CFPB programs and operations
- to review existing and proposed legislation and regulations and make recommendations regarding possible improvements to Board and CFPB programs and operations
- to keep the Board of Governors, the Director of the CFPB, and Congress fully and currently informed

Congress has also mandated additional responsibilities that influence the OIG's priorities, to include the following:

- Section 38(k) of the Federal Deposit Insurance Act, as amended (FDI Act), requires that the OIG review failed financial institutions supervised by the Board that result in a material loss to the DIF and produce a report within six months. Section 38(k) also requires that the OIG conduct an in-depth review of any nonmaterial losses to the DIF that exhibit unusual circumstances. For those in-depth reviews, we report our results in a manner similar to a material loss review. For nonmaterial losses that do not exhibit unusual circumstances, we typically summarize the results of our assessments in a table in accordance with the requirements of section 38(k).

- Section 211(f) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires that the OIG review the Board's supervision of any covered financial company that is placed into receivership and produce a report that evaluates the effectiveness of the Board's supervision, identifies any acts or omissions by the Board that contributed to or could have prevented the company's receivership status, and recommends appropriate administrative or legislative action.
- Section 989E of the Dodd-Frank Act established the Council of Inspectors General on Financial Oversight (CIGFO), which comprises the Inspectors General (IGs) of the Board, the Commodity Futures Trading Commission, the U.S. Department of Housing and Urban Development, the U.S. Department of the Treasury (Treasury), the FDIC, the Federal Housing Finance Agency, the National Credit Union Administration, the Securities and Exchange Commission, and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). CIGFO is required to meet at least quarterly to share information and discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. Additionally, CIGFO is required to issue a report annually that highlights the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO also has the authority to convene a working group of its members to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council, which was created by the Dodd-Frank Act and is charged with identifying threats to the nation's financial stability, promoting market discipline, and responding to emerging risks to the stability of the nation's financial system.
- With respect to IT, FISMA established a legislative mandate for ensuring the effectiveness of information security controls over resources that support federal operations and assets. Consistent with FISMA requirements, we perform annual independent reviews of the Board's and the CFPB's information security programs and practices, including the effectiveness of security controls and techniques for selected information systems.
- The USA Patriot Act of 2001 grants the Board certain federal law enforcement authorities. Our office serves as the external oversight function for the Board's law enforcement program.

- Section 11B of the Federal Reserve Act mandates annual independent audits of the financial statements of each Federal Reserve Bank and of the Board. We oversee the annual financial statement audits of the Board and of the Federal Financial Institutions Examination Council (FFIEC). (The Board performs the accounting function for the FFIEC.) The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency (OCC), and the CFPB and to make recommendations to promote uniformity in the supervision of financial institutions. (Under the Dodd-Frank Act, the U.S. Government Accountability Office performs the financial statement audit of the CFPB.)

Audits, Evaluations, and Inspections

Audits assess aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. For example, the OIG oversees audits of the Board's financial statements, and it conducts audits of (1) the efficiency and effectiveness of the Board's and the CFPB's processes and internal controls over their programs and operations; (2) the adequacy of controls and security measures governing these agencies' financial and management information systems and the safeguarding of assets and sensitive information; and (3) compliance with applicable laws and regulations related to agency financial, administrative, and program operations. OIG audits are performed in accordance with the *Government Auditing Standards* established by the Comptroller General of the United States.

Inspections and evaluations include program evaluations and legislatively mandated reviews of failed financial institutions supervised by the Board. Inspections are often narrowly focused on a particular issue or topic and provide time-critical analysis that cuts across functions and organizations. In contrast, evaluations are generally focused on a specific program or function and may make extensive use of statistical and quantitative analytical techniques. OIG inspections and evaluations are performed according to the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The information below summarizes OIG audit, evaluation, and inspection work completed during the reporting period and ongoing work that will continue into the next semiannual reporting period.

Board of Governors of the Federal Reserve System

Completed Projects

Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project

OIG Report No. 2014-AE-B-007 **March 31, 2014**

We performed this audit because the Martin Building construction and renovation project requires a significant investment of resources, and it has been identified as a strategic theme in the Board's strategic framework. Our objectives were to assess how the cost estimates for the project were determined and how costs will be managed within the Board's strategic framework.

The Martin Building project comprises construction of a visitors' center, construction of a conference center, and renovation of the Martin Building. The concept for the project began shortly after the events of September 11, 2001. Since the original concept was developed, the Martin Building project has gone through a lengthy design phase, primarily due to significant scope changes. These scope changes also resulted in the preparation of multiple estimates that were eventually consolidated into a single conceptual construction cost estimate of $179.9 million, which is one component of an overall estimated project cost of $280.4 million.

Our audit focused on the Martin Building project's conceptual construction cost estimate that was available during our fieldwork. Conceptual cost estimates are typically used during initial planning and should be updated as scope and costs are clarified. Consistent with this practice, the Board's architecture and engineering firm and construction administrator submitted updated estimates based on detailed project requirements in December 2013. These estimates were within the expected range of the conceptual cost estimate developed by the Martin Building project team.

Our audit identified opportunities for the Board to improve its recordkeeping, cost estimation, and cost management processes for the Martin Building project. Specifically, we found that the project team did not adequately maintain documentation supporting its conceptual construction cost estimate for the Martin Building project, and support was not available for several line items. We also found that the conceptual construction cost estimate contained errors and inconsistencies. In addition, the Board has not yet established a contractual stated cost limitation with the architecture and engineering firm and has not required the firm to submit cost-saving items to aid in cost management.

Actions that the Board has taken since 2011 to improve management of the Martin Building project include arranging for the preparation of an independent construction cost estimate; hiring additional personnel, including a senior project manager, with construction experience; dedicating a procurement staff member to the project; and acquiring a records management system. We made six recommendations to improve the Board's cost estimation process and cost management and recordkeeping practices. The Board concurred with our recommendations and noted that it is taking actions to implement them.

Audit of the Board's Data Center Relocation

OIG Report No. 2014-IT-B-002 **February 7, 2014**

Our objective for this initial audit was to obtain information and gain an understanding of the scope, cost, and project schedule for the relocation of the Board's data center. Overall, our audit determined that the Board is following a structured approach to planning the relocation of the data center, and Board staff are actively engaged in the planning and decisionmaking for the project. The Board has executed a memorandum of understanding with the Federal Reserve Bank of Richmond for the construction of the new data center and is maintaining a project management team and oversight group to monitor progress and risks.

We determined, however, that there are two areas for which additional actions by the Board are needed to keep the project progressing to meet requirements and remain on schedule. First, the Board has not reevaluated the overall funding for relocating the data center since initially approving the consultant's cost projection of $201.5 million in June 2012 as the overall budget for the project. This figure was an initial estimate of project costs based on rough order of magnitude pricing used to analyze alternatives rather than a detailed budget for the project. Since the initial estimate, design changes have occurred. Second, the construction phase of the data center relocation project has an aggressive schedule with several identified risk areas; any delays in the data center project may impact the Martin Building renovation schedule.

We made two recommendations. The Board indicated that it agrees with our recommendations, and it outlined actions that have been taken, are underway, and are planned to address our recommendations. We intend to continue to monitor the Board's data center relocation as the project continues through 2015.

2013 Audit of the Board's Information Security Program

OIG Report No. 2013-IT-B-019 **November 14, 2013**

To meet our annual FISMA reporting responsibilities, we reviewed the information security program and practices of the Board. FISMA requires federal agencies to develop, document, and implement an agency-wide information security program. FISMA also requires each IG to conduct an annual independent evaluation of the agency's information security program and practices.

Overall, we found that the Board's Chief Information Officer is maintaining a FISMA-compliant approach to the Board's information security program that is generally consistent with requirements established by NIST and the Office of Management and Budget.

The Board's Information Security Officer continues to issue policies and procedures that include attributes identified within the U.S. Department of Homeland Security (DHS) reporting metrics. In our response to the 11 DHS reporting metrics for 2013, we found that the Board has effective programs in place that are consistent with FISMA requirements and that include attributes identified by DHS for plan of action and milestones, remote access management, identity and access management, contingency planning, configuration management, and security capital planning. We also found that the Board has programs in place that include attributes identified within the DHS reporting metrics for incident response and reporting, security training, and contractor systems; however, our report identifies opportunities for improvement within those areas. During the past year, the Information Security Officer has continued to make progress in implementing an enterprise IT risk management framework and a continuous monitoring program; however, additional steps are needed to fully implement programs that are consistent with FISMA requirements.

We made two recommendations related to tracking training for individuals with significant information security responsibilities and continuous monitoring. The Director of the Division of Information Technology, in her capacity as Chief Information Officer, agreed with our recommendations and stated that she intends to take immediate action to address each recommendation. In addition, we kept open our 2012 recommendations related to incident reporting and contractor systems and our 2011 recommendation related to risk management.

The Board's Law Enforcement Unit Could Benefit From Enhanced Oversight and Controls to Ensure Compliance With Applicable Regulations and Policies

OIG Report No. 2014-AE-B-006 **March 28, 2014**

The objective of this inspection was to assess the Law Enforcement Unit's (LEU) compliance with Board and LEU internal policies, procedures, and applicable regulations. The Board's *General Orders* and the *Uniform Regulations for Federal Reserve Law Enforcement Officers* cover qualifications and standards, jurisdiction, cross-designation, training, authority to carry firearms, use of force, arrest powers, execution of searches, plain-clothes operations, internal oversight, and external oversight. The *Uniform Regulations for Federal Reserve Law Enforcement Officers* requires each Federal Reserve System LEU to establish an internal oversight committee that will have inspection and evaluation responsibilities for the unit and designates the Board's OIG to perform the external oversight function for the Board's LEU.

We found that the LEU could benefit from enhanced oversight and controls to ensure compliance with applicable Board regulations and LEU policies and procedures. Specifically, we found that the Board's internal oversight committee did not perform the required reviews of the LEU and that LEU management could not account for credentials and badges; did not confirm the assignment of credentials, badges, and firearms from inventory; and did not verify that instructors and officers met all training requirements. In addition, in some instances there was insufficient evidence that officers were eligible to possess firearms and understood the *Use of Force Policy* because the signed forms, which are required annually, were not available.

We made 10 recommendations designed to enhance the oversight of the LEU and improve the LEU's programs and operations. Management concurred with our recommendations and noted that it is taking actions to implement them.

Opportunities Exist to Achieve Operational Efficiencies in the Board's Management of Information Technology Services

OIG Report No. 2014-IT-B-003 **February 26, 2014**

The Board's strategic framework highlights achieving operational efficiencies and reducing costs as key priorities. In support of these strategic priorities, our audit objective was to determine how IT services are managed across Board divisions and identify areas where operational efficiencies could be achieved.

Overall, our audit determined that the Board does not track costs for IT services in a consistent manner, and the Board has not implemented consistent processes for applications development and help-desk services. In addition, we found that the Board's efforts to develop an enterprise architecture have not included all technologies and services used across Board divisions. We made two recommendations and presented a matter for management's consideration. The Board agreed with our recommendations and outlined actions that have been taken, are underway, or are planned to address our recommendations.

Response to a Congressional Request Regarding the Board's Compliance with Federal Requirements for Addressing Climate Change

October 29, 2013

The OIG responded to a letter from the co-chairs of the Bicameral Task Force on Climate Change regarding the Board's response to climate change. The Task Force's letter requests the identification of existing requirements in legislation, regulations, executive orders, and other directives that apply to the Board and our assessment of how the Board is meeting these requirements. The Task Force also requested an assessment of the Board's authorities to reduce emissions of heat-trapping pollution and to make the nation more resilient to the effects of climate change.

The Board's Legal Division is responsible for determining the federal climate change requirements to which the Board is subject. The Board's response to the OIG's inquiry stated that it is not legally required to comply with the provisions of the Energy Independence and Security Act of 2007, the Energy Policy Act of 2005, Executive Order 13514, or Executive Order 13423. Notwithstanding this determination, the Board's response described several climate change initiatives it has voluntarily undertaken.

In our letter addressing the Task Force's request, we summarized the Board's response to our inquiry. We recognize the financial and environmental risks that climate change poses to the federal government, and we will consider additional reviews of the Board's climate change initiatives during our annual planning process.

Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Reports

We contract with an independent public accounting firm to annually perform an audit to express an opinion on the fair presentation of the Board's financial statements and an opinion on the effectiveness of the Board's internal controls over financial reporting. The OIG oversees the activities of the contractor to ensure compliance with generally accepted government auditing standards and Public Company Accounting Oversight Board auditing standards related to internal controls over financial reporting. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluation of the overall financial statement presentation.

In the auditors' opinion, the Board's financial statements presented fairly, in all material respects, the financial position and the results of its operations and its cash flows as of December 31, 2013 and 2012, in conformity with U.S. generally accepted accounting principles. Also, in the auditors' opinion the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework* (1992) by the Committee of Sponsoring Organizations of the Treadway Commission.

As part of providing reasonable assurance that the financial statements are free of material misstatement, the auditors also performed tests of the Board's compliance with certain provisions of laws and regulations that could have a direct and material effect on the determination of the financial statement amounts. The results of the auditors' tests disclosed no instances of noncompliance that would be required to be reported under the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Reports

The Board performs the accounting function for the FFIEC, and we contract with an independent public accounting firm to annually audit the council's financial statements to provide reasonable assurance that the financial statements are free of material misstatement. The OIG oversees the activities of the contractor to ensure compliance with generally accepted government auditing standards. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as an evaluation of the overall financial statement presentation.

To determine the auditing procedures necessary to express an opinion on the financial statements, the auditors considered the FFIEC's internal controls over financial reporting. As part of providing reasonable assurance that the financial statements are free of material misstatement, the auditors also performed tests of the FFIEC's compliance with certain laws and regulations that could have a direct and material effect on the determination of the financial statement amounts.

In the auditors' opinion, the FFIEC's financial statements presented fairly, in all material respects, the financial position, results of operations, and cash flows as of December 31, 2013 and 2012, in conformity with accounting principles generally accepted in the United States. The auditors noted no matters involving internal control over financial reporting that would be required to be reported under the *Government Auditing Standards*, issued by the Comptroller General of the United States. The results of the auditors' tests disclosed no instances of noncompliance that would be required to be reported under the *Government Auditing Standards*.

Transfer of Office of Thrift Supervision Functions Is Completed

OIG Report No. 2014-AE-B-004 **March 26, 2014**

Title III of the Dodd-Frank Act established provisions for the transfer of authorities from the Office of Thrift Supervision to the OCC, the FDIC, and the Board within one year after the July 21, 2010, enactment date. Title III transferred to the Board, on July 21, 2011, the functions and rulemaking authority for consolidated supervision of savings and loan holding companies and their nondepository subsidiaries. The Dodd-Frank Act required that, within 180 days after its enactment, the Office of Thrift Supervision, the OCC, the FDIC, and the Board jointly submit a plan—the Joint Implementation Plan—to Congress and the IGs of Treasury, the FDIC, and the Board that detailed the steps each agency would take to implement the title III provisions. The Joint Implementation Plan was submitted to Congress and the IGs on January 25, 2011. The Dodd-Frank Act also required the IGs to determine whether the implementation plan conformed to the title III provisions. On March 28, 2011, the IGs jointly issued a report concluding that the actions described in the Joint Implementation Plan generally conformed to the provisions of title III.

Section 327 of title III requires the IGs to report on the status of the implementation of the Joint Implementation Plan every six months. The IGs have issued six status reports to date, the latest and final having been issued on March 26, 2014. This report concluded that all title III requirements have been met.

Work in Progress

Review of the Federal Reserve's Supervisory Activities Related to the Loss at JPMorgan Chase & Co.'s Chief Investment Office

We continued fieldwork for our evaluation of the Federal Reserve's supervisory activities related to the multibillion-dollar loss at JPMorgan Chase & Co.'s Chief Investment Office. Our objectives for this evaluation are to (1) assess the effectiveness of the Board's and the Federal Reserve Bank of New York's consolidated and other supervisory activities regarding JPMorgan Chase & Co.'s Chief Investment Office and (2) identify lessons learned for enhancing future supervisory activities. We plan to issue this report in the next semiannual reporting period.

Audit of the Board's Information Technology Contingency Planning and Continuity of Operations Program

During this reporting period, we completed our fieldwork and briefed Board management on the cost of maintaining the Board's IT continuity of operations program. In addition to identifying potential cost savings and opportunities to enhance efficiencies, our audit focuses on determining whether the Board's program is consistent with federal guidelines and how the Board's contingency planning and its continuity of operations program provide a coordinated strategy involving plans, procedures, and technical measures that enable the recovery of information systems, operations, and data after a disruption. We expect to issue our final report during the next semiannual reporting period.

Evaluation of the Operational Components of the Board's Law Enforcement Unit

We completed our evaluation of the operational components of the Board's LEU and plan to issue the results of our evaluation during the next semiannual reporting period. The LEU safeguards most Board-designated property and personnel 24 hours a day, 7 days a week. In the Board's 2012–2015 strategic framework, the sixth strategic theme is to establish a cost-reduction approach for Board operations that maintains an effective and efficient use of financial resources. Accordingly, the Board's Management Division, which includes the LEU, linked its program area objectives to the strategic framework and identified opportunities for potential cost savings and for operational efficiency improvement. We addressed our evaluation objective to assess the economy and efficiency of the LEU's operational components by reviewing the LEU's approach to identifying cost savings and opportunities for operational efficiencies. We plan to issue this report in the next semiannual reporting period.

Audit of the Relocation of the Board's Data Center

During this period, we initiated the next phase of our ongoing oversight of the Board's relocation of its data center. The relocation of the data center is a multiyear project that is planned to be completed in 2015. We are monitoring the project and will issue reports at key points. Our objectives during the initial audit were to obtain information and gain an understanding of the project's scope, cost, and schedule. We issued our first report on February 7, 2014, with recommendations related to monitoring costs and schedule. During this phase, we will follow up on recommendations from our initial audit and focus on the construction and equipment procurement process to ensure that the Board is implementing physical and environmental controls. We plan to issue this report in the next semiannual reporting period.

Evaluation of the Board's Policies, Procedures, and Practices Associated With Agency-Sponsored Conferences

We continued our evaluation of the Board's conference-related activities. The objectives of our evaluation focus on determining the controls, policies, procedures, and practices associated with conferences. The review is limited to conference activities sponsored by the Board. We plan to issue this report during the next semiannual reporting period.

Evaluation of the Board's Corporate Services

We are conducting an evaluation of the Board's corporate services function to determine the extent to which Board staff use such services and to identify potential efficiencies. We completed fieldwork for two sections of the corporate services evaluation: Mail Services and Motor Transport. In the Board's 2012–2015 strategic framework, the sixth strategic theme is to establish a cost-reduction approach for Board operations that maintains an effective and efficient use of financial resources. Accordingly, Board divisions, such as the Management Division, have linked their program area objectives to the strategic framework and are working to identify opportunities for potential cost savings and to improve operational efficiencies. We expect to report the results of our evaluation during the next semiannual reporting period.

Evaluation of Enforcement Actions Against Institution-Affiliated Parties

In 2013, the OIGs for the Board, the FDIC, and the OCC initiated a joint evaluation of the processes for initiating enforcement actions and professional liability claims against institution-affiliated parties of failed institutions. Our objectives are to (1) describe the process for initiating enforcement actions against institution-affiliated parties for state member banks, (2) report the results of the Board's efforts in pursuing enforcement actions against institution-affiliated parties with a focus on individuals associated with failed state member banks, and (3) identify key factors that may impact the pursuit of enforcement actions against institution-affiliated parties.

We have completed our fieldwork and expect to issue this report during the next semiannual reporting period.

Evaluation of the Board's Oversight of Mortgage Servicing Enforcement Actions and Settlement Agreements

We are conducting an evaluation of the Board's oversight of a settlement with mortgage servicers for alleged deficient mortgage foreclosure practices. In January 2013, the Board and the OCC announced a settlement with mortgage servicers to compensate borrowers who were potentially harmed. The settlement covers borrowers who had a mortgage on their primary residence that was in any stage of foreclosure in 2009 or 2010 and that was serviced by one of the participating servicers. The settlement required mortgage servicers to slot the borrowers into various categories based on possible harm. The Board and the OCC assigned payment amounts to each category. The amounts range from $300 to $125,000. A paying agent was hired by the servicers to mail checks, totaling about $3.6 billion, to approximately 4.2 million borrowers. Our objectives are to (1) evaluate the Board's overall approach to oversight of the settlement, (2) determine the effectiveness of the Board's oversight of the slotting process, and (3) determine the effectiveness of the Board's oversight of the payment process executed by the paying agent. We have completed our fieldwork and expect to issue our report during the next semiannual reporting period.

Audit of the Division of Reserve Bank Operations and Payment Systems' Oversight of Reserve Banks' Wholesale Financial Services

We initiated an audit of the Division of Reserve Bank Operations and Payment Systems' (RBOPS) oversight of the Reserve Banks' wholesale financial services. Our objective is to assess the extent and effectiveness of RBOPS's oversight of those services. Specifically, we will review how RBOPS assesses wholesale services against the standards defined in the *Federal Reserve Policy on Payment System Risk* to determine whether the payment and settlement systems incorporate (1) an appropriate risk-management framework and (2) the internationally accepted guidelines in their policies and procedures. We have completed our fieldwork and expect to issue our report during the next semiannual reporting period.

Audit of the Board's Oversight of Federal Reserve Banks' Law Enforcement Units

The *Uniform Regulations for Federal Reserve Law Enforcement Officers* designated RBOPS as the external oversight function responsible for performing periodic reviews and evaluations of the Reserve Banks' law enforcement programs and operations. Our objective is to assess the effectiveness of RBOPS's reviews and evaluations in ensuring compliance with applicable laws, regulations, and policies. In addition, our audit aims to assess the overall impact of the oversight by reviewing the frequency and scope of RBOPS's evaluations and its follow-up on evaluation recommendations.

Audit of the Division of Banking Supervision and Regulation's Validation Process for Models Used During the Annual Comprehensive Capital Analysis and Review

We are conducting an audit of the Division of Banking Supervision and Regulation's (BS&R) model risk-management processes for the supervisory models used in support of the annual Comprehensive Capital Analysis and Review (CCAR). CCAR is an annual exercise by the Federal Reserve System to ensure that institutions have robust, forward-looking capital planning processes that account for their unique risks and that they have sufficient capital to continue operations throughout times of economic and financial stress. CCAR includes a supervisory stress test to support the Federal Reserve System's analysis of the adequacy of the firms' capital. Our review assesses the overall effectiveness of the model risk-management framework pertaining to the supervisory models, including a wide spectrum of current model risk-management practices and the related policies and procedures. The objectives of our audit are to (1) assess the extent to which the Federal Reserve System's model risk-management procedures for CCAR stress-testing supervisory models are consistent with Supervision and Regulation Letter 11-7 on model risk management and (2) assess whether the model risk-management practices are consistent with internal policies and procedures.

Security Control Review of the E^2 Solutions Travel Management System

During this reporting period, we completed our fieldwork and issued an early alert memorandum on December 20, 2013. The E^2 Solutions Travel Management System is a web-based, end-to-end travel management system to plan, authorize, arrange, process, and manage official federal travel. This application is listed on the Board's FISMA inventory as a third-party system. Our objectives are to (1) evaluate the adequacy of certain control techniques designed to protect data in the system from unauthorized access, modification, destruction, or disclosure and (2) assess compliance with Board information security program and FISMA requirements. We expect to issue our final report during the next semiannual reporting period.

Audit of the Board's STAR Modernization Project

We are conducting an audit of the STAR Modernization Project. STAR is the central computer application used by the statistics function at the Federal Reserve Banks and the Board to collect and edit over 75 periodic statistical reports from financial institutions. Through the STAR Modernization Project, the Board is upgrading the system hardware, software, and functionality. Our audit focuses on the adequacy and internal controls of the development process for the new system, including the cost and schedule. In addition, we are assessing how security controls are being built into the system. We plan to issue our final report in the next semiannual reporting period.

Audit of the Board's Information System Security Life Cycle Process

During this period, we initiated an audit of the Board's information system security life cycle process. Our audit will focus on the Board's processes to meet FISMA requirements for security categorization, testing, security plans, and accreditation of its information systems. In addition, we will review how the Board's FISMA-related documents and review activities are compiled and maintained.

Table 1: Audit, Inspection, and Evaluation Reports Issued to the Board During the Reporting Period

Title	Type of report
Information technology audits	
Opportunities Exist to Achieve Operational Efficiencies in the Board's Management of Information Technology Services	Audit
Audit of the Board's Data Center Relocation	Audit
2013 Audit of the Board's Information Security Program	Audit
Program audits, inspections, and evaluations	
Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project	Audit
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Reports	Audit
Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Reports	Audit
The Board's Law Enforcement Unit Could Benefit From Enhanced Oversight and Controls to Ensure Compliance With Applicable Regulations and Policies	Inspection
Transfer of Office of Thrift Supervision Functions Is Completed	Evaluation
Response to a Congressional Request Regarding the Board's Compliance with Federal Requirements for Addressing Climate Change	Letter to requestor

Total number of audit reports: 6
Total number of inspection and evaluation reports: 2
Total number of letters to requestor: 1

Table 2: Audit, Inspection, and Evaluation Reports Issued to the Board With Questioned Costs During the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the Board is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Table 3: Audit, Inspection, and Evaluation Reports Issued to the Board With Recommendations That Funds Be Put to Better Use During the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the Board is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period[a]

Report title	Issue date	Recommendations: No.	Recommendations: Mgmt. agrees	Recommendations: Mgmt. disagrees	Status of recommendations: Last follow-up date	Status of recommendations: Closed	Status of recommendations: Open
Evaluation of Service Credit Computations	08/05	3	3	–	09/13	2	1
Security Control Review of the FISMA Assets Maintained by the Federal Reserve Bank of Boston (nonpublic report)	09/08	11	11	–	02/14	11	–
Evaluation of Data Flows for Board Employee Data Received by Office of Employee Benefits and Its Contractors (nonpublic report)	09/08	2	2	–	02/14	1	1
Security Control Review of the Internet Electronic Submission System (nonpublic report)	12/10	6	6	–	03/13	3	3
Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings	06/11	2	2	–	03/14	–	2
Review of the Failure of Pierce Commercial Bank	09/11	2	2	–	03/14	1	1
Security Control Review of the Visitor Registration System (nonpublic report)	09/11	10	10	–	07/13	4	6
Summary Analysis of Failed Bank Reviews	09/11	3	3	–	03/14	3	–
Evaluation of Prompt Regulatory Action Implementation	09/11	1[b]	1	–	–	–	1
Audit of the Board's Information Security Program	11/11	1	1	–	11/13	–	1
Review of RBOPS' Oversight of the Next Generation $100 Note	01/12	2	2	–	–	–	2

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

b. This recommendation was directed jointly to the OCC, the FDIC, and the Board.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period[a] (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		No.	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Security Control Review of the National Remote Access Services System (nonpublic report)	03/12	8	8	–	09/13	7	1
Material Loss Review of the Bank of the Commonwealth	04/12	4	4	–	03/14	3	1
Security Control Review of the Board's Public Website (nonpublic report)	04/12	12	12	–	–	–	12
Review of the Unauthorized Disclosure of a Confidential Staff Draft of the Volcker Rule Notice of Proposed Rulemaking	07/12	3	3	–	03/14	–	3
Security Control Review of the Federal Reserve Bank of Richmond's Lotus Notes Systems Supporting the Board's Division of Banking Supervision and Regulation (nonpublic report)	08/12	9	9	–	–	–	9
Audit of the Small Community Bank Examination Process	08/12	1	1	–	–	–	1
Audit of the Board's Government Travel Card Program	09/12	4	4	–	–	–	4
Audit of the Board's Actions to Analyze Mortgage Foreclosure Processing Risks	09/12	2	2	–	03/14	1	1
Security Control Review of the Aon Hewitt Employee Benefits System (nonpublic report)	09/12	8	8	–	–	–	8
2012 Audit of the Board's Information Security Program	11/12	2	2	–	11/13	–	2

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

b. This recommendation was directed jointly to the OCC, the FDIC, and the Board.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period[a] (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		No.	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Security Control Review of Contingency Planning Controls for the Information Technology General Support System (nonpublic report)	12/12	5	5	–	–	–	5
Review of the Failure of Bank of Whitman	03/13	1	1	–	03/14	–	1
Controls over the Board's Purchase Card Program Can Be Strengthened	03/13	3	3	–	–	–	3
Board Should Enhance Compliance with Small Entity Compliance Guide Requirements Contained in the Small Business Regulatory Enforcement Fairness Act of 1996	07/13	2	2	–	–	–	2
Security Control Review of the Board's National Examination Database System (nonpublic report)	07/13	4	4	–	–	–	4
Security Control Review of a Third-party Commercial Data Exchange Service Used by the Board's Division of Banking Supervision and Regulation (nonpublic report)	08/13	11	11	–	–	–	11
Board Should Strengthen Controls over the Handling of the Federal Open Market Committee Meeting Minutes	08/13	4	4	–	–	–	4
The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control	09/13	1	1	–	–	–	1

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

b. This recommendation was directed jointly to the OCC, the FDIC, and the Board.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period[a] (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		No.	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
The Board Should Improve Procedures for Preparing for and Responding to Emergency Events	09/13	7	7	–	–	–	7
2013 Audit of the Board's Information Security Program	11/13	2	2	–	–	–	2
Audit of the Board's Data Center Relocation	02/14	2	2	–	–	–	2
Opportunities Exist to Achieve Operational Efficiencies in the Board's Management of Information Technology Services	02/14	2	2	–	–	–	2
The Board's Law Enforcement Unit Could Benefit From Enhanced Oversight and Controls to Ensure Compliance With Applicable Regulations and Policies	03/14	10	10	–	–	–	10
Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project	03/14	6	6	–	–	–	6

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

b. This recommendation was directed jointly to the OCC, the FDIC, and the Board.

Consumer Financial Protection Bureau

Completed Projects

The CFPB Can Improve the Efficiency and Effectiveness of Its Supervisory Activities

OIG Report No. 2014-AE-C-005 **March 27, 2014**

We conducted this evaluation to assess the operational efficiency and effectiveness of the CFPB's supervision program. The CFPB's supervision activities include prioritizing, scheduling, planning, and executing examinations and reporting findings in the form of reports of examination or supervisory letters. Our objectives for this evaluation included (1) reviewing key program elements, such as policies and procedures, examination guidance, and controls to promote consistent and timely reporting; (2) assessing the approach for staffing examinations; and (3) assessing the training program for examination staff.

Since it began operations in July 2011, the CFPB has made significant progress toward developing and implementing a comprehensive supervision program for depository and nondepository institutions. The agency has implemented this program on a nationwide basis across its four regional offices. While we recognize the considerable efforts associated with the initial development and implementation of the program, we believe that the CFPB can improve the efficiency and effectiveness of its supervisory activities. Specifically, we found that the CFPB needs to (1) improve its reporting timeliness and reduce the number of examination reports that have not been issued, (2) adhere to its unequivocal standards concerning the use of standard compliance rating definitions in its examination reports, and (3) update its policies and procedures to reflect current practices.

We completed our fieldwork in October 2013, using data as of July 31, 2013. Following the completion of our fieldwork, senior CFPB officials indicated that management had taken various measures to address certain findings in our report, including streamlining the report review process and reducing the number of examination reports that had not been issued. As part of our future follow-up activities, we will assess whether these actions, as well as the planned actions described in management's response, address our findings and recommendations.

We made 12 recommendations designed to assist the CFPB in strengthening its supervision program. We recommended that the CFPB create and update relevant policies and procedures; track and monitor examination processes for staffing examinations and producing examination products; and finalize its examiner commissioning program. Management concurred with our recommendations and outlined actions that have been taken or will be implemented to address our recommendations.

The CFPB Should Reassess Its Approach to Integrating Enforcement Attorneys Into Examinations and Enhance Associated Safeguards

OIG Report No. 2013-AE-C-021 **December 16, 2013**

We conducted an evaluation of the CFPB's integration of enforcement attorneys into its examinations of depository and nondepository institutions' compliance with applicable laws and regulations. Our objectives were to assess (1) the potential risks associated with the CFPB's approach to integrating enforcement attorneys into examinations and (2) the effectiveness of any safeguards that the CFPB adopted to mitigate the potential risks associated with this examination approach.

We found that the CFPB should determine the appropriate level of enforcement attorney integration into examinations by reassessing the potential risks associated with the practice against the potential benefits and document the results of the assessment. Our evaluation results indicated that the CFPB's February 2012 policy describing the general principles of the integrated approach did not sufficiently detail how the approach should be implemented and was not uniformly distributed to CFPB supervision and enforcement staff. As a result, CFPB supervision and enforcement staff's awareness, understanding, and execution of the policy, as well as their messaging to supervised institutions concerning the role of enforcement attorneys, varied considerably. During our evaluation, we also learned that enforcement attorneys did not receive formal training on the CFPB's examination process and that the CFPB lacked a policy on enforcement attorneys' access to institutions' systems during examinations. In addition, we learned that the CFPB reorganized its supervision function in December 2012 and established points of contact within the Office of Supervision Policy to address legal questions that arise during examinations, in part to ensure more consistent interpretations of applicable laws or regulations. As of the end of our fieldwork, August 2013, the CFPB had not updated its February 2012 policy describing the integrated approach to reflect changes to the process for resolving legal questions.

When we commenced our evaluation, the CFPB informed us that it had initiated an internal review to evaluate its approach to integrating enforcement attorneys into examinations. During our evaluation, we routinely met with CFPB senior officials and shared our preliminary observations concerning the integrated approach, including its potential risks. In October 2013, when our draft report was nearing completion, CFPB senior officials informed us that the agency had finalized its internal review and had reconsidered its approach regarding integrating enforcement attorneys into examinations. According to CFPB senior officials, new policies and procedures reflecting the revised approach became effective in November 2013, which was outside the scope of our evaluation. Thus, our report reflects our assessment of the CFPB's February 2012 policy related to the integrated approach.

We made seven recommendations. The CFPB indicated that it had taken actions or has planned activities to address our recommendations.

2013 Audit of the CFPB's Information Security Program

OIG Report No. 2013-IT-C-020 **December 2, 2013**

To meet our annual FISMA reporting responsibilities, we reviewed the information security program and practices of the CFPB. FISMA requires federal agencies to develop, document, and implement an agency-wide information security program. FISMA also requires each IG to conduct an annual independent evaluation of the agency's information security program and practices.

Overall, we found that the CFPB has taken multiple steps over the past year to develop, document, and implement an information security program that is consistent with FISMA requirements. The

CFPB has also taken several actions to strengthen its information security program in the 11 areas outlined in DHS's 2013 FISMA reporting guidance for IGs. We found that the CFPB's information security program is generally consistent with the requirements outlined in DHS's FISMA reporting guidance for IGs in 6 out of 11 information security areas: identity and access management, incident response and reporting, risk management, plan of action and milestones, remote access management, and contractor systems.

We identified opportunities to improve the CFPB's information security program through automation, centralization, and other enhancements to ensure that key DHS requirements for continuous monitoring, configuration management, and security training are met. We also identified improvements needed in contingency planning for a select system we reviewed and found that while the CFPB had not met several security capital planning requirements outlined in DHS's FISMA reporting guidance, it was taking sufficient actions to establish a security capital planning program. Further, while we found the CFPB's information security program to be generally consistent with DHS's requirements for incident response and reporting, we identified opportunities to strengthen CFPB's incident correlation processes.

We made four recommendations designed to assist the CFPB in strengthening its information security program in the areas of continuous monitoring, configuration management, security training, and incident response and reporting. The CFPB's Chief Information Officer concurred with our recommendations and outlined actions that have been taken, are underway, and are planned to strengthen CFPB's information security program.

Audit of the CFPB's Civil Penalty Fund

OIG Report No. 2014-AE-C-001 **January 16, 2014**

The Dodd-Frank Act required the CFPB to establish the Civil Penalty Fund (CPF). The CFPB must deposit any civil penalty it obtains against any person in any judicial or administrative action under federal consumer financial law into this separate fund, which is maintained in an account at the Federal Reserve Bank of New York. The CFPB will use the money collected in the CPF to compensate consumers who were harmed by activities for which civil penalties have been imposed. To the extent that victims cannot be located or payment is not practicable, the CFPB may use the funds for consumer education and financial literacy programs. Our objective for this audit was to determine whether the CFPB had developed controls to implement the statutory provisions concerning the CPF.

Overall, our audit determined that the CFPB has been implementing internal controls for the CPF since June 2012. For example, the CFPB developed a CPF rule as well as internal procedures titled *Procedures for Civil Penalty Fund Administration*. We determined, however, that the CFPB can clarify its internal procedures. The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states that internal controls should be clearly documented. The current practice of the Fund Administrator is to obtain case-related information in writing; however, the CFPB's *Procedures for Civil Penalty Fund Administration* does not state that case-related information should be collected in writing. During our audit, we also observed that information on the CPF was not consolidated in a single location on the CFPB's public website. We relayed this observation to CFPB officials, who took steps to consolidate the CPF information on the CFPB's public website.

We made one recommendation. The CFPB indicated that it had taken actions to address our recommendation.

Observations and Matters for Consideration Regarding the CFPB's Annual Budget Process

OIG Report No. 2013-AE-C-018 **October 22, 2013**

We completed an evaluation of the CFPB's budget process related to the agency's fiscal year (FY) 2013 budget. Our objective was to evaluate the extent to which the CFPB's budget process facilitated the achievement of the agency's goals and performance objectives, including transparency to the public. We focused our review on the CFPB's initial FY 2013 and revised FY 2012 budgets presented in the agency's FY 2013 budget justification issued in February 2012.

Overall, our evaluation showed that the CFPB has a budget process in place to facilitate the achievement of its goals and performance objectives, including transparency to the public. For example, we found that the CFPB linked the budget we reviewed to strategic principles and developed policies to link future budgets to the strategic plan. Further, as part of the budget formulation process, the CFPB estimated by quarter the amount of funds to be provided by the Federal Reserve System and then, each quarter, reviewed these estimates and the agency's financial position. We also found that the CFPB presented budgetary information to the public, posting on its website its first annual performance plan in February 2012 and its draft strategic plan in September 2012.

We did not make any formal recommendations; however, we noted opportunities for the CFPB to enhance its practices related to preparing funding requests and posting budget-related information on its website. The agency informed us that it had continued to improve and refine its budget process since the completion of our fieldwork and had taken actions to address our observations.

Response to a Congressional Request Regarding the CFPB's Compliance with Federal Requirements for Addressing Climate Change

October 29, 2013

The OIG responded to a letter from the co-chairs of the Bicameral Task Force on Climate Change regarding the actions taken in response to climate change by the agencies we oversee. As the oversight entity for the CFPB, we responded to the Task Force's letter requesting the identification of existing requirements in legislation, regulations, executive orders, and other directives that apply to the CFPB and our assessment of how the CFPB is meeting these requirements. The Task Force also requested an assessment of the agency's authorities to reduce emissions of heat-trapping pollution and to make the nation more resilient to the effects of climate change.

The CFPB's Legal Division is responsible for determining the federal climate change requirements to which the CFPB is subject. The CFPB's Legal Division identified that the Energy Independence and Security Act of 2007, the Energy Policy Act of 2005, Executive Order 13514, and Executive Order 13423 apply to the agency. CFPB officials described the climate change initiatives the CFPB has taken to comply with applicable climate change requirements. In our letter addressing the Task Force's request, we summarized the CFPB's response to our inquiry. The

CFPB did not identify any authorities it has to reduce emissions from heat-trapping pollution or to make the nation more resilient to the effects of climate change. The CFPB did not identify any additional steps that it could take to reduce emissions or strengthen resiliency. We recognize the financial and environmental risks that climate change poses to the federal government, and we will consider additional reviews of the CFPB's climate change initiatives during our annual planning process.

Work in Progress

Evaluation of the CFPB's Headquarters Renovation Project

We initiated an evaluation of the CFPB's headquarters renovation budget in response to a request from the Chairman of the Subcommittee on Oversight and Investigations, House Committee on Financial Services. To address this congressional request, our objectives are to evaluate, with respect to the CFPB's headquarters renovation project, (1) the capital budgeting and approval process, (2) the scope and justification for cost estimates, and (3) the use of competitive procedures. We expect to complete this evaluation and issue our final report in the next semiannual reporting period.

Audit of the CFPB's Contract Management Process

We initiated an audit of the CFPB's contract management process. The CFPB's procurement process follows the requirements established by the *Federal Acquisition Regulation*, which is the primary regulation governing the acquisition of supplies and services by federal executive agencies. This audit will focus on the CFPB's contract management processes, compliance with applicable rules established by the *Federal Acquisition Regulation*, and the effectiveness of the CFPB's internal controls related to contract management. We expect to complete this audit and issue our report by the end of the calendar year.

Audit of the CFPB's Public Consumer Complaint Database

We initiated an audit of the CFPB's public consumer complaint database. Since June 2012, the CFPB has publicly shared individual-level consumer complaint data. While the public consumer complaint database initially contained only credit card complaints, it has since been expanded to include complaints about other consumer financial products and services regulated by the CFPB, such as mortgages and credit reporting. This audit will focus on the CFPB's controls for managing the consumer complaint database and will assess the accuracy and completeness of the consumer complaint data that are available to the public. We expect to complete fieldwork for this audit during the next semiannual reporting period.

Evaluation of the CFPB's Hiring Process

We concluded our fieldwork for the evaluation of the CFPB's hiring process. The objective of our evaluation is to assess the efficiency and effectiveness of three CFPB recruitment and selection subprocesses: (1) personnel assessment methodology and vacancy announcement creation, (2) hiring authority and vacancy announcement posting, and (3) evaluation and selection of candidates. We also assessed the agency's compliance with certain laws, applicable regulations, and policies and its administration of recruitment and selection incentives to recruit new employees. We plan to issue our report during the next semiannual reporting period.

Audit of the CFPB's Cloud Computing Environment

During this reporting period, we modified the scope of our ongoing audit of the CFPB's cloud computing environment to include our participation in a governmentwide initiative coordinated by CIGIE. The CIGIE project will focus on evaluating agencies' efforts to adopt cloud computing technologies and to review executed contracts between agencies and cloud service providers for compliance with applicable standards. We will continue to review actions taken by the CFPB to implement best practices stipulated in NIST guidance for implementing and managing cloud computing technologies. Information gathered during the CIGIE project will be incorporated into a governmentwide report to be released by CIGIE. We expect to complete this project and issue our own report on the CFPB's cloud computing environment in the next semiannual reporting period.

Audit of a CFPB Cloud Provider

During this period, we completed our fieldwork and briefed CFPB management on our security control review of a third-party provider of the CFPB's cloud environment. Our audit objectives are to (1) evaluate the adequacy of certain control techniques designed to protect data from unauthorized access, modification, destruction, or disclosure and (2) assess compliance with the CFPB's security-related policies and FISMA requirements. We expect to issue this report during the next semiannual reporting period.

Evaluation of the CFPB's Compliance With Section 1100G of the Dodd-Frank Act

We have completed our fieldwork to assess the CFPB's compliance with the section 1100G requirements of the Dodd-Frank Act. Section 1100G amends the Small Business Regulatory Enforcement Fairness Act of 1996 and the Regulatory Flexibility Act to require the CFPB to assess a proposed rule's economic impact and the cost of credit for small entities. Among other requirements, the CFPB must perform a regulatory flexibility analysis that includes a description of (1) any projected increase in the cost of credit for small entities, (2) any significant alternatives to the proposed rule that accomplish the stated objectives of applicable statutes and that minimize any increase in the cost of credit for small entities, and (3) the advice and recommendations of representatives of small entities relating to issues associated with the projected increases or alternatives. We expect to complete our evaluation during the next semiannual reporting period.

Audit of the CFPB's Activities Under the Government Performance and Results Act

We continued our audit of the CFPB's initiatives under the Government Performance and Results Act of 1993, as amended by the GPRA Modernization Act of 2010 (collectively, GPRA), which is part of a legislative framework to instill performance-based management across federal government agencies. GPRA requires agencies to establish a management system to set agency goals for program performance and to measure results against those goals. Agencies must incorporate the performance management concepts of strategic planning and performance measurement into their planning and budgeting processes and issue associated performance plans and reports. The objectives of this audit are to assess the CFPB's compliance with applicable sections of GPRA and the effectiveness of processes that address GPRA requirements. We have completed our fieldwork and will issue our report during the next semiannual reporting period.

Audit of the CFPB's Space-Planning Activities

During this reporting period, we initiated an audit to assess the CFPB's short-term and long-term space-planning activities to determine whether controls are in place to effectively manage the agency's space needs and associated costs. Our audit will focus on the CFPB's processes for planning, obtaining, and managing space for both its headquarters and regional offices, to include how the agency manages its transition to new office space. We are currently conducting fieldwork and expect to complete this audit and issue our report in 2014.

Table 5: Audit, Inspection, and Evaluation Reports Issued to the CFPB During the Reporting Period

Title	Type of report
Program audits, inspections, and evaluations	
Audit of the CFPB's Civil Penalty Fund	Audit
2013 Audit of the CFPB's Information Security Program	Audit
Observations and Matters for Consideration Regarding the CFPB's Annual Budget Process	Evaluation
The CFPB Can Improve the Efficiency and Effectiveness of Its Supervisory Activities	Evaluation
The CFPB Should Reassess Its Approach to Integrating Enforcement Attorneys Into Examinations and Enhance Associated Safeguards	Evaluation
Response to a Congressional Request Regarding the CFPB's Compliance with Federal Requirements for Addressing Climate Change	Letter to requestor

Total number of audit reports: 2
Total number of inspection and evaluation reports: 3
Total number of letters to requestor: 1

Table 6: Audit, Inspection, and Evaluation Reports Issued to the CFPB With Questioned Costs During the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the CFPB is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Table 7: Audit, Inspection, and Evaluation Reports Issued to the CFPB With Recommendations That Funds Be Put to Better Use During the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the CFPB is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Table 8: OIG Reports to the CFPB With Recommendations That Were Open During the Reporting Period[a]

Report title	Issue date	Recommendations			Status of recommendations		
		No.	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Evaluation of the Consumer Financial Protection Bureau's Consumer Response Unit	09/12	5	5	–	08/13	3	2
2012 Audit of the Consumer Financial Protection Bureau's Information Security Program	11/12	3	3	–	12/13	3	–
Security Control Review of the Consumer Financial Protection Bureau's Consumer Response System (nonpublic report)	03/13	9	9	–	03/14	8	1
CFPB Contract Solicitation and Selection Processes Facilitate FAR Compliance, but Opportunities Exist to Strengthen Internal Controls	03/13	3	3	–	–	–	3
Opportunities Exist to Enhance the CFPB's Policies, Procedures, and Monitoring Activities for Conferences	08/13	4	4	–	–	–	4
The CFPB Should Strengthen Internal Controls for Its Government Travel Card Program to Ensure Program Integrity	09/13	14	14	–	01/14	3	11
Opportunities Exist for the CFPB to Strengthen Compliance with Its Purchase Card Policies and Procedures	09/13	2	2	–	01/14	2	–
2013 Audit of the CFPB's Information Security Program	12/13	4	4	–	–	–	4
The CFPB Should Reassess Its Approach to Integrating Enforcement Attorneys Into Examinations and Enhance Associated Safeguards	12/13	7	7	–	–	–	7

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

Table 8: OIG Reports to the CFPB With Recommendations That Were Open During the Reporting Period[a] (continued)

Report title	Issue date	Recommendations: No.	Recommendations: Mgmt. agrees	Recommendations: Mgmt. disagrees	Status of recommendations: Last follow-up date	Status of recommendations: Closed	Status of recommendations: Open
Audit of the CFPB's Civil Penalty Fund	01/14	1	1	–	–	–	1
The CFPB Can Improve the Efficiency and Effectiveness of Its Supervisory Activities	03/14	12	12	–	–	–	12

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

Failed State Member Bank Reviews

Material Loss Reviews

Section 38(k) of the FDI Act requires that the IG of the appropriate federal banking agency complete a review of the agency's supervision of a failed institution and issue a report within six months of notification from the FDIC OIG that the projected loss to the DIF is material. Under section 38(k) of the FDI Act, a material loss to the DIF is defined as an estimated loss in excess of $150 million for the period January 1, 2012, through December 31, 2013; for all such losses occurring on or after January 1, 2014, the materiality threshold is $50 million.

The material loss review provisions of section 38(k) require that the IG do the following:

- review the institution's supervision, including the agency's implementation of prompt corrective action
- ascertain why the institution's problems resulted in a material loss to the DIF
- make recommendations for preventing any such loss in the future

We did not conduct any material loss reviews during this reporting period.

Nonmaterial Loss Reviews

The FDI Act, as amended by the Dodd-Frank Act, requires the IG of the appropriate federal banking agency to report, on a semiannual basis, certain information on financial institutions that incurred nonmaterial losses to the DIF and that failed during the respective six-month period.

When bank failures result in nonmaterial losses to the DIF, the IG is required to determine (1) the grounds identified by the federal banking agency or the state bank supervisor for appointing the FDIC as receiver and (2) whether the losses to the DIF present unusual circumstances that would warrant an in-depth review. Generally, the in-depth review process is the same as that for material loss reviews, but in-depth reviews are not subject to the six-month reporting deadline.

The IG must semiannually report the dates when each such review and report will be completed. If an in-depth review is not warranted, the IG is required to provide an explanation of this determination. In general, we consider a loss to the DIF to present unusual circumstances if the conditions associated with the bank's deterioration, ultimate closure, and supervision were not addressed in any of our prior bank failure reports or involved potentially fraudulent activity.

During this reporting period, we continued our in-depth review of the failure of Waccamaw Bank (described below). There were no nonmaterial state member bank failures during this reporting period.

In-Depth Review of the Failure of Waccamaw Bank

On June 8, 2012, the North Carolina Office of the Commissioner of Banks closed Waccamaw Bank and appointed the FDIC as receiver. According to the FDIC's press release, as of March 31, 2012, Waccamaw Bank had approximately $533.1 million in total assets and $472.7 million in total deposits. On June 8, 2012, the FDIC estimated that the cost to the DIF from Waccamaw Bank's closure will be $51.1 million, which did not meet the materiality threshold as defined under section 38(k) of the FDI Act.

Based on the results of its failed bank review, the OIG determined that the failure of Waccamaw Bank was due to circumstances that have been covered in past OIG reports. However, the failed bank review also identified three unusual circumstances that warranted an in-depth review of Waccamaw Bank: (1) Waccamaw Bank appears to have misinformed regulators about key aspects of an asset swap transaction that significantly changed its risk profile and financial condition; (2) Waccamaw Bank initiated a series of appeals related to the examiners' recommended regulatory capital treatment of a transaction, which ultimately reached the highest level of appellate review by a Board Governor; and (3) there were unique circumstances surrounding the retirement of Waccamaw Bank's former President and Chief Executive Officer (CEO). As a result, we initiated an in-depth review that focuses on these three unusual circumstances. We plan to issue our report during the next semiannual reporting period.

Investigations

The OIG's Office of Investigations conducts criminal, civil, and administrative investigations related to Board and CFPB programs and operations. The OIG operates under statutory law enforcement authority granted by the U.S. Attorney General, which vests our Special Agents with the authority to carry firearms, seek and execute search and arrest warrants, and make arrests without a warrant in certain circumstances. OIG investigations are conducted in compliance with CIGIE's *Quality Standards for Investigations* and the *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority*.

State Member Banks

The Board is responsible for supervising and regulating state-chartered member banks that are members of the Federal Reserve System. Under delegated authority from the Board, the Federal Reserve Banks execute the day-to-day supervision of state member banks, and BS&R is responsible for overseeing the Reserve Banks' supervisory activities. Our office's investigations concerning state member banks typically involve allegations that bank officers have falsified financial records, lied to or misled examiners, or obstructed examinations in a manner that may have affected the Board's ability to carry out its supervisory and regulatory responsibility over state member banks. Such activity may result in criminal violations, such as false statements or obstruction of a bank examination.

Our office's investigative efforts in such cases typically consist of interviewing witnesses and subjects; identifying and obtaining critical Board documents; issuing subpoenas; analyzing financial records; and coordinating work between the U.S. Department of Justice, other law enforcement partners, and Board and Reserve Bank staff. Examples of investigations affecting the Board's ability to carry out its supervisory and regulatory responsibilities over state member banks are provided below; however, due to prosecutorial discretion and the nature of the investigative process, certain criminal allegations investigated by our office may not appear in U.S. Department of Justice indictments or plea agreements.

Former CEO of the Bank of the Commonwealth Sentenced to 23 Years in Prison for Fraud

On November 6, 2013, the former CEO and Chairman of the Board for the Bank of the Commonwealth, Norfolk, Virginia, was sentenced to 23 years in prison, followed by 5 years of supervised release, for conspiracy to commit bank fraud, false entry in a bank record, unlawful participation in loans, false statements to a financial institution, misapplication of bank funds, and bank fraud. The court further ordered the defendant to pay $333,569,732 in restitution to the FDIC. The defendant was found guilty on May 24, 2013, after a 10-week jury trial.

Evidence presented at trial demonstrated that the defendant engaged in an illegal reciprocal relationship with certain troubled borrowers to mask the bank's deteriorating financial condition. Other conspirators testified at trial that, at the request of the defendant and another bank executive, they performed favors, such as buying Bank of the Currituck stock, bailing out the defendant's son on bad investments, and purchasing bank-owned property with fully funded Bank of the Commonwealth loans. In return, they received preferential treatment, such as being afforded large overdrafts, sometimes for hundreds of thousands of dollars, at below-market interest rates; granted loans to make interest payments on other loans; and provided easy access to credit. Additionally, the defendant funded, without the approval of the bank's board of directors, three loans totaling $11 million to another troubled borrower who was in bankruptcy and was the subject of a federal grand jury investigation. Later, the defendant made false entries in bank records to conceal the fact that he authorized the funding of these loans without proper approval.

The defendant's crimes contributed to the failure of the Bank of the Commonwealth on September 23, 2011. As a result of this failure, the FDIC's DIF has sustained at least $333 million in losses.

The case was the result of a joint investigation by the Board-CFPB OIG, the Federal Bureau of Investigation (FBI), the Internal Revenue Service–Criminal Investigation Division, SIGTARP, and the FDIC OIG. This case was prosecuted by the U.S. Attorney's Office for the Eastern District of Virginia.

Former Vice President of Fifth Third Bank Charged in Scheme to Defraud

On February 19, 2014, the U.S. Attorney's Office for the Middle District of Florida charged a former Vice President of Fifth Third Bank, Jacksonville, Florida, with one count of bank fraud. Fifth Third Bank is a state member bank with its headquarters in Cincinnati, Ohio. The defendant was employed by Fifth Third Bank for six years and served as a Vice President in 2009.

According to the charges, the defendant engaged in a four-year scheme to defraud the bank, whereby he embezzled a total of approximately $10,542,374 from the accounts of one major corporate bank customer and two retail bank customers. The defendant allegedly embezzled funds from individuals' and corporate customers' accounts for his personal and other uses, including making home mortgage payments, installing a pool at his home, and other personal living expenses; funding off-the-book loans for customers who had previous loan requests denied; making off-the-book interest payments on the off-the-book loans; paying off troubled loans in his portfolio of customers; and depositing the embezzled funds into other customers' deposit accounts to fraudulently bolster the customers' creditworthiness.

This is a joint investigation by the Board-CFPB OIG, the FBI, and Fifth Third Bank's Protection Division. This case is being prosecuted by the U.S. Attorney's Office for the Middle District of Florida.

Bank Holding Companies

The Board is responsible for supervising and regulating bank holding companies, including financial holding companies formed under the Gramm-Leach-Bliley Act, on a consolidated basis. Under delegated authority from the Board, the Federal Reserve Banks execute the day-to-day supervision of bank and financial holding companies, and BS&R is responsible for overseeing the Reserve Bank's supervisory activities. Our office's investigations concerning bank holding companies typically involve allegations that holding company directors or officers falsified financial records, lied to or misled examiners, or obstructed examinations in a manner that may have affected the Board's ability to carry out its supervisory and regulatory responsibilities over bank holding companies. Such activity may result in criminal violations, such as false statements or obstruction of a bank examination.

Our office's investigative efforts in such cases typically consist of conducting witness and subject interviews; identifying and obtaining critical Board documents; issuing subpoenas; analyzing financial records; and coordinating work between the U.S. Department of Justice, other law enforcement partners, and Board and Reserve Bank staff. Examples of investigations affecting the Board's ability to carry out its supervisory and regulatory responsibilities over bank holding companies are provided below, although due to prosecutorial discretion and the nature of the investigative process, certain criminal allegations investigated by our office may not appear in U.S. Department of Justice indictments or plea agreements.

Seven Former Bank Officers Pleaded Guilty in Loan-Fraud Scheme That Preceded Collapse of First National Bank of Savannah

Seven former officers of First National Bank of Savannah, Savannah, Georgia, pleaded guilty before a United States District Court Chief Judge, Southern District of Georgia, for their role in a massive loan-fraud scheme against First National Bank of Savannah and other federally insured banks. The defendants pleaded guilty to various charges in a 47-count indictment returned by a federal grand jury in Savannah in January 2013. First National Bank of Savannah is a subsidiary of First National Corporation, a bank holding company regulated by the Board.

The officers were

- the former Vice President of Credit Administration of First National Bank of Savannah, who pleaded guilty on October 25, 2013, to a single count of bank fraud
- the former President and CEO of First National Bank of Savannah, who pleaded guilty on November 12, 2013, to conspiring to defraud First National Bank of Savannah and other federally insured banks

- the former Executive Vice President and Chief Financial Officer of First National Bank of Savannah, who pleaded guilty on January 15, 2014, to two counts of bank fraud
- the former City President of the Richmond Hill branch and a Commercial Loan Officer of First National Bank of Savannah, who pleaded guilty on January 15, 2014, to a single count of false entries made in bank records
- a former Senior Vice President and Commercial Loan Officer of First National Bank of Savannah, who pleaded guilty on January 16, 2014, to two counts of bank fraud
- the former City President and Senior Lending Officer of First National Bank of Savannah, who pleaded guilty on January 17, 2014, to two counts of bank fraud
- the former City President of the Tybee Island branch and a Commercial Loan Officer of First National Bank of Savannah, who pleaded guilty on January 21, 2014, to two counts of bank fraud

According to evidence presented during the guilty plea hearings, as First National Bank of Savannah's financial condition began to deteriorate, the defendants attempted to conceal from the bank, the bank's board of directors, and federal regulators millions of dollars in nonperforming loans. The defendants accomplished their scheme by unlawfully loaning money to unqualified nominees to make interest and other payments on other nonperforming loans and by enticing others to take over nonperforming loans with hidden promises, side deals, and other terms unfavorable to First National Bank of Savannah and by recruiting other banks to fund nonperforming loans based on fraudulent misrepresentations about the quality of the loans. To assist in their scheme, the defendants falsified and fabricated numerous bank documents and records. First National Bank of Savannah failed and was taken over by the FDIC as receiver on June 25, 2010. The FDIC estimates that First National Bank of Savannah's failure will cost the DIF over $90 million.

The defendants will be sentenced after the United States Probation Office completes its presentence investigations. The defendants remain on bond pending sentencing. This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, and the Treasury OIG. This case is being prosecuted by the U.S. Attorney's Office for the Southern District of Georgia.

Missing Georgia Bank Director, Accused of Embezzling More Than $20 Million, Arrested

A former Bank Director, originally from Lyons, Georgia, who was indicted in July 2012 by a federal grand jury in the Southern District of Georgia on a charge that he defrauded the Montgomery Bank & Trust, Ailey, Georgia, of over $21 million, was arrested on December 31, 2013, by members of the Glynn County Sheriff's Department who were conducting a random vehicle and traffic stop. Montgomery Bank & Trust is a subsidiary of Montgomery County Bankshares, Inc., a bank holding company regulated by the Board.

According to the allegations in the indictment against the former Bank Director, in 2010, an investment group he controlled invested approximately $10 million in the failing Montgomery Bank & Trust. He was then made a director of Montgomery Bank & Trust and became responsible for investing the bank's capital. The indictment alleged that over the next 18 months, he stole, misappropriated, and embezzled over $21 million from Montgomery Bank & Trust. To cover up his fraud, he allegedly provided bank officials with false account statements that indicated that the bank's capital was safely held in an account at a financial services firm.

Before the arrest, the former Bank Director was last seen in June 2012 boarding a ferry in Key West, Florida, bound for Fort Myers, Florida. He disappeared after writing a letter to acquaintances and regulators indicating that he had lost a large amount of money and that he planned to take his own life. The FBI had been actively searching for him since the date of his disappearance. He was stopped by deputies from the Glynn County Sheriff's Department on Interstate 95 in Brunswick, Georgia. When deputies learned of his true identity, he was arrested and taken into custody.

The former Bank Director is charged with one count of bank fraud in the Southern District of Georgia, which carries a maximum sentence of 30 years in prison and a fine of up to $1 million. He faces additional charges in New York. This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, and the FBI. This case is being prosecuted by the U.S. Attorney's Office for the Southern District of Georgia.

Two Former United Commercial Bank Officials Charged in Superseding Indictment

On March 11, 2014, a former Executive Vice President and a former Senior Vice President of United Commercial Bank were charged with additional federal offenses in a superseding indictment returned by a federal grand jury in San Francisco, California. Both officers had been previously charged in an earlier indictment, dated September 15, 2011, on several counts, including securities fraud, falsifying corporate books and records, and false statements to accountants of a publicly traded company. The superseding indictment contains all of the previous charges and includes additional counts. United Commercial Bank is a subsidiary of UCBH Holdings, Inc., a bank holding company regulated by the Board.

According to the superseding indictment, the former Executive Vice President and the former Senior Vice President worked for United Commercial Bank from September 2008 through April 2009. These former executives allegedly engaged in a fraudulent scheme to deceive United Commercial Bank, the bank's depositors, the investing public, the Securities and Exchange Commission, auditors, and bank regulators by manipulating United Commercial Bank's books and records in a manner that misrepresented and concealed the bank's true financial condition and performance and caused United Commercial Bank to issue false and misleading statements and representations.

As a further part of the scheme to defraud, the defendants and others allegedly misled and lied to the bank's auditor and failed to disclose facts necessary to make their statements and representations complete and accurate. The defendants and others allegedly misrepresented various bank loans and collateral securing those loans and concealed and omitted material information related to (1) the existence of recent appraisals of collateral that secured various bank loans, (2) the value of repossessed assets and collateral, and (3) the bank's intention to sell various loans as well as pending loan sales.

This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, SIGTARP, and the FBI. This case is being prosecuted by the U.S. Attorney's Office for the Northern District of California.

Former One Bank & Trust N.A. Vice President Indicted for Bank Fraud and Money Laundering

On November 8, 2013, an indictment was unsealed in the Eastern District of Arkansas charging a former Vice President and Controller of One Bank & Trust N.A., Little Rock, Arkansas, with 30 counts of bank fraud and 30 counts of money laundering. According to records from Treasury's Troubled Asset Relief Program (TARP), One Financial Corporation, the bank holding company for One Bank & Trust N.A., received $17.3 million in June 2009 in federal taxpayer funds through TARP.

The indictment alleges that while employed with One Bank & Trust N.A., the defendant obtained 30 cashier's checks from January 2009 to October 2011 by using his position to sign cashier's checks drawn on a One Bank & Trust N.A. clearing account. He would then mail the cashier's checks to two credit card companies with which he had personal accounts to pay off the credit card bills. In total, the defendant is alleged to have stolen approximately $74,974. When confronted by One Bank & Trust N.A. management, he admitted his actions. He was allowed to resign, and he paid back the amount he had stolen.

The case was investigated by the Board-CFPB OIG, the Internal Revenue Service–Criminal Investigation Division, SIGTARP, the FBI, and the FDIC. The case is being prosecuted by the U.S. Attorney's Office for the Eastern District of Arkansas.

Former Bank Holding Company Officer Sentenced

On March 25, 2014, the former Chairman, President, and majority shareholder of Calvert Financial Corporation (CFC), Ashland, Missouri, the bank holding company for Mainstreet Bank, was sentenced in United States District Court to two years of probation, during which he will serve eight months in a halfway house to be followed by four months of electronically monitored home detention. The former CFC officer was also ordered to make restitution to CFC in the amount of $96,978 and was assessed a criminal fine of $10,000 and a special assessment of $25. Additionally, the former officer executed a consent order with the Board agreeing not to become or continue serving as an officer, director, employee, or institution-affiliated party as originally agreed to in his plea agreement.

Previously, the former CFC officer entered into a plea agreement on August 26, 2013, with the U.S. Attorney's Office for the Western District of Missouri. The former CFC officer, who also served as the Chairman and Chief Financial Officer of Mainstreet Bank, pleaded guilty to an information in federal court to one count of making a false writing in violation of 18 U.S.C. § 1018.

According to the plea agreement, in November 2008, CFC applied to receive TARP funds. In January 2009, CFC received $1,037,000 through TARP. The Chairman, as the duly authorized Senior Executive Officer of CFC, signed all transaction documents related to the acquisition of the TARP funds. On February 2, 2009, the Chairman used $381,487 of the TARP funds to purchase a luxury condominium in Fort Myers, Florida. The Chairman arranged the transfer of funds for the purchase of the condominium and executed all transaction documents for the purchase.

As part of its duty to supervise, audit, and investigate institutions that received TARP funds, SIGTARP was required to annually submit to Congress a report detailing how those institutions that received TARP funds used their funds. Pursuant to its duty, SIGTARP transmitted letters to various financial institutions seeking specific information as to how TARP funds were used by the institution.

In a letter transmitted to SIGTARP dated February 10, 2009, the Chairman responded to the SIGTARP use-of-funds inquiry. In his letter, the Chairman failed to disclose that a significant portion of TARP funds had been used to acquire the condominium. According to the plea agreement, the failure by the Chairman to disclose the purchase of the condominium was a material misrepresentation of facts relating to the true use of TARP funds by CFC.

As part of the plea agreement, the Chairman agreed to enter into a consent order of removal and prohibition with the Board in which he agreed not to become or continue serving as an officer, director, employee, or institution-affiliated party without the prior approval of the appropriate federal financial institution regulatory agency.

This is a joint investigation by the Board-CFPB OIG, the FBI, and SIGTARP. This case is being prosecuted by the U.S. Attorney's Office for the Western District of Missouri.

Table 9: Summary Statistics on Investigations During the Reporting Period[a]

Investigative actions	Number or dollar value
Investigative caseload	
Investigations open at end of previous reporting period	59
Investigations opened during the reporting period	12
Investigations closed during the reporting period	1
Investigations open at end of the period	70
Investigative results for the reporting period	
Referred to prosecutor	8
Joint investigations	32
Referred to audit	0
Referred for administrative action	0
Oral and/or written reprimands	0
Terminations of employment	1
Arrests	4
Suspensions	0
Debarments	0
Indictments	9
Criminal information	2
Convictions	12
Monetary recoveries	$0
Civil actions	$0
Criminal fines, restitution, and forfeiture	$338,632,385
Asset forfeiture	$0

a. Some of the investigative numbers may include data also captured by other OIGs.

Hotline

The OIG Hotline serves as a resource for individuals to report fraud, waste, abuse, or mismanagement related to the programs or operations of the Board and the CFPB. Hotline staff members can be reached by phone, fax, mail, or e-mail. OIG analysts review all incoming Hotline communications, research and analyze the issues raised, and determine how to best address the complaints. During this reporting period, the Hotline received 306 complaints.

The OIG Hotline continued to receive a significant number of complaints involving suspicious solicitations invoking the name of the Federal Reserve. Hotline staff members continue to advise all individuals that these "phishing" e-mails are solicitations that attempt to obtain the personal and/or financial information of the recipient and that neither the Board nor the Federal Reserve Banks endorse or have any involvement in them.

The OIG continued to receive a significant number of complaints from individuals seeking information about or wanting to file noncriminal consumer complaints regarding credit cards, student loans, mortgages, or other consumer financial products and services. In these matters, Hotline staff members typically refer complainants to the consumer group of the appropriate federal regulator for the institution involved, such as the OCC Customer Assistance Group or CFPB Consumer Response.

Table 10: Summary Statistics on Hotline Activities During the Reporting Period

Hotline complaints	Number
Complaints pending from previous reporting period	7
Complaints received during reporting period	306
Total complaints for reporting period	313
Complaints resolved during reporting period	311
Complaints pending	2

Legal Services

The Legal Services program serves as the independent legal counsel to the IG and the OIG staff. The Legal Services staff members provide comprehensive legal advice, research, counseling, analysis, and representation in support of OIG audits, investigations, inspections, evaluations, and other professional, management, and administrative functions. This work provides the legal basis for the conclusions, findings, and recommendations contained in OIG reports. Moreover, Legal Services keeps the IG and the OIG staff aware of recent legal developments that may affect the activities of the OIG, the Board, and the CFPB.

In accordance with section 4(a)(2) of the IG Act, Legal Services staff members conduct an independent review of newly enacted and proposed legislation and regulations to determine their potential effect on the economy and efficiency of the Board's and the CFPB's programs and operations. During this reporting period, Legal Services reviewed 15 legislative and 7 regulatory items.

Communications and Coordination

The OIG's primary mission is to enhance the economy, efficiency, and effectiveness of Board and CFPB programs and operations, and we coordinate externally and work internally to achieve our goals and objectives. Externally, we regularly coordinate with and provide information to Congress and congressional staff. We also are active members of the broader IG professional community and promote collaboration on shared concerns. Internally, we consistently strive to enhance and maximize efficiency and transparency in our infrastructure and day-to-day operations. Within the Board, the CFPB, and the Federal Reserve System, we continue to provide information about the OIG's roles and responsibilities. In addition, we participate in an advisory capacity on various Board workgroups. Highlights of our communications and coordination activities follow.

Congressional Coordination and Testimony

The OIG communicates and coordinates with various congressional committees on issues of mutual interest. During the reporting period, we provided 22 responses to inquiries from congressional members and staff concerning the Board and the CFPB.

Council of Inspectors General on Financial Oversight

Consistent with the Dodd-Frank Act, CIGFO is required to meet at least quarterly to facilitate the sharing of information among the IGs and to discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. During this reporting period, CIGFO met on December 5, 2013, and March 13, 2014. CIGFO is also required to annually issue a report that highlights the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO plans to issue its fourth annual report in July 2014.

Council of the Inspectors General on Integrity and Efficiency and Inspector General Community Involvement

The IG is a member of CIGIE, which provides a forum for IGs from various government agencies to discuss governmentwide issues and shared concerns. Collectively, the members of CIGIE work toward improving government programs and operations. The IG also serves as a member of CIGIE's Legislation Committee and Investigations Committee and leads the Information Technology Subcommittee of the Legislation Committee. The Legislation Committee is the central point of information regarding legislative initiatives and congressional activities that may affect the community, such as proposed cybersecurity legislation that was reviewed during the reporting period. The Investigations Committee advises the IG community on issues involving criminal investigations, criminal investigations personnel, and establishing criminal investigative guidelines. The Associate Inspector General for Legal Services serves as the chair of the Council of Counsels to the IG, and Legal Services staff attorneys are members of the council. In addition, the Associate Inspector General for Information Technology, as the chair of the IT Committee of the Federal Audit Executive Council, works with IT audit staff throughout the IG community and reports to the CIGIE Audit and IT Committees on common IT audit issues.

Financial Regulatory Coordination

To foster cooperation on issues of mutual interest, the IG communicates periodically with the IGs from other federal financial regulatory agencies, including the FDIC, Treasury, the National Credit Union Administration, the Securities and Exchange Commission, the Farm Credit Administration, the

Commodity Futures Trading Commission, the Pension Benefit Guaranty Corporation, the U.S. Department of Housing and Urban Development, and the Federal Housing Finance Agency. In addition, the Associate Inspector General for Audits and Evaluations and the Associate Inspector General for Information Technology and their management staffs meet with their financial regulatory agency OIG counterparts to discuss various topics, such as annual plans and ongoing projects. The OIG also coordinates with the U.S. Government Accountability Office regarding financial regulatory and other related issues.

Peer Reviews

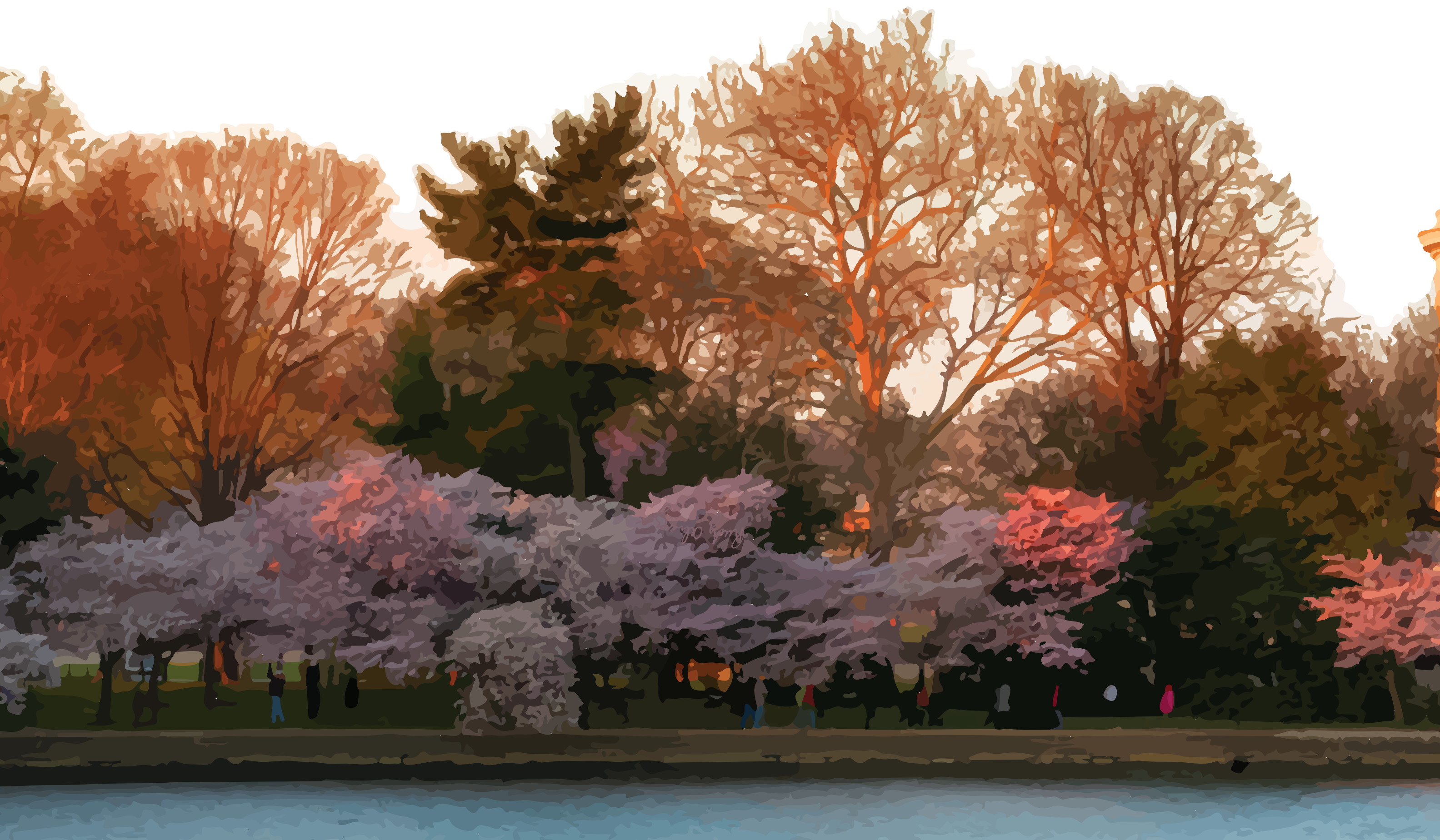
Government auditing and investigative standards require that our audit and investigative units each be reviewed by a peer OIG organization every three years. Section 989C of the Dodd-Frank Act amended the IG Act to require that OIGs provide in their semiannual reports to Congress specified information regarding (1) peer reviews of their respective organizations and (2) peer reviews they have conducted of other OIGs. The following information addresses these Dodd-Frank Act requirements.

- The last peer review of the OIG's audit organization was completed in December 2011 by the Pension Benefit Guaranty Corporation OIG. We received a peer review rating of *pass*. There were no report recommendations nor were any peer review recommendations pending from any previous peer reviews of our audit organization.

- The last peer review of the OIG's Office of Investigations was completed in October 2013 by the U.S. Railroad Retirement Board OIG. We received a peer review rating of *pass*. There were no report recommendations nor were any peer review recommendations pending from any previous peer reviews of our investigative organization. The peer review included suggestions for improvement, which we have considered and incorporated into updated policies and procedures where appropriate.

Abbreviations

Board	Board of Governors of the Federal Reserve System
BS&R	Division of Banking Supervision and Regulation
CCAR	Comprehensive Capital Analysis and Review
CEO	Chief Executive Officer
CFC	Calvert Financial Corporation
CFPB	Consumer Financial Protection Bureau
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CPF	Civil Penalty Fund
DHS	U.S. Department of Homeland Security
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act, as amended
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FISMA	Federal Information Security Management Act of 2002
FY	fiscal year
GPRA	Government Performance and Results Act of 1993, as amended by the GPRA Modernization Act of 2010
IG	Inspector General
IG Act	Inspector General Act of 1978, as amended
IT	information technology
LEU	Law Enforcement Unit
NIST	National Institute of Standards and Technology
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
RBOPS	Division of Reserve Bank Operations and Payment Systems
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury



Office of Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551
Phone: 202-973-5000 | Fax: 202-973-5044

OIG Hotline 1-800-827-3340 | OIGHotline@frb.gov