OFFICE OF INSPECTOR GENERAL

Evaluation Report

2015-MO-C-013

The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes

August 26, 2015

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

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Abbreviations

ARC	Administrative Resource Center
BFS	Bureau of the Fiscal Service
CFPB	Consumer Financial Protection Bureau
C.F.R.	*Code of Federal Regulations*
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
GAO	U.S. Government Accountability Office
HCAS	human capital accountability system
incentive policy	*Cash Compensation Program Sign On Bonus* policy
OHC	Office of Human Capital
OIG	Office of Inspector General
OPM	U.S. Office of Personnel Management
Presidential Memorandum	*Presidential Memorandum—Improving the Federal Recruitment and Hiring Process*
SOP	standard operating procedure
U.S.C.	*United States Code*

Executive Summary:

The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes

2015-MO-C-013 **August 26, 2015**

Purpose

We conducted this evaluation to assess the efficiency and effectiveness of certain activities of the Consumer Financial Protection Bureau's (CFPB) employee recruitment and selection processes, as well as the agency's compliance with CFPB recruitment and selection policies and procedures and certain laws and regulations. We tested internal controls for (1) activities related to filling competitive service and excepted service positions, (2) the administration of recruitment incentives, and (3) noncompetitive promotions and reassignments. We also evaluated how the CFPB measures the timeliness of its hiring.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) authorized the Director of the CFPB to appoint employees in accordance with applicable provisions of title 5 of the *United States Code* and its implementing regulations. The Dodd-Frank Act provided the CFPB with flexibility in its hiring process by waiving specific title 5 provisions through July 21, 2015. In January 2012, a CFPB order delegated most of the Director's authority to the agency's Office of Human Capital (OHC). From the CFPB's inception in July 2011 through December 2014, the agency grew from 212 employees to more than 1,400.

Finding

The OHC established control activities in the form of policies and procedures related to recruiting and selecting employees. Our testing of certain controls that were in effect during our review period revealed, however, that OHC personnel did not always follow the control activities established to enforce management's directives. Although recent OHC initiatives have strengthened control activities, we found that OHC's internal controls can be further enhanced. For example, the agency can improve its ability to track and measure the timeliness of its hiring, as well as monitor recruitment and selection activities for potential deficiencies.

According to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, internal control contributes to management's ability to efficiently and effectively achieve its goals and objectives. Thus, effective internal control contributes to the CFPB's ability to recruit highly qualified staff in a timely manner. By effectively implementing controls, the OHC can help ensure that its internal policies are followed and that potential process improvements are identified.

Recommendations

Our report includes recommendations designed to improve the efficiency and effectiveness of the OHC's employee recruitment and selection processes. Our recommendations relate to establishing target completion dates and performance metrics to ensure the efficiency of the hiring process and enhancing monitoring activities to assess performance and facilitate the identification of control deficiencies. In its response to our draft report, the CFPB concurs with our recommendations.

Summary of Recommendations, OIG Report No. 2015-MO-C-013

Rec. no.	Report page no.	Recommendation	Responsible office
1	12	Enhance the Office of Human Capital's monitoring efforts by including additional steps designed to assess whether internal controls related to the CFPB's recruitment and selection processes are designed and operating effectively.	Office of Human Capital
2	13	Fully implement the staffing efficiency performance metric, finalize the internal policy that defines target completion dates for each hiring step, and finalize a process to track actual performance against target completion dates.	Office of Human Capital

Office of Inspector General

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

August 26, 2015

MEMORANDUM

TO: Jeffrey Sumberg
Chief Human Capital Officer
Consumer Financial Protection Bureau

FROM: Melissa Heist
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report No. 2015-MO-C-013: *The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes*

The Office of Inspector General (OIG) has completed its final report on the subject evaluation. We conducted this evaluation to assess the efficiency and effectiveness of certain activities of the Consumer Financial Protection Bureau's (CFPB) employee recruitment and selection processes, as well as the agency's compliance with CFPB recruitment and selection policies and procedures and certain laws and regulations.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations. We have included your response as appendix C to our report.

We appreciate the cooperation that we received from the CFPB's Office of Human Capital. Please contact me if you would like to discuss this report or any related issues.

cc: Sartaj Alag, Chief Operating Officer
Stephen Agostini, Chief Financial Officer
J. Anthony Ogden, Deputy Inspector General

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Introduction

Objective

Our objective was to assess the efficiency and effectiveness of certain hiring processes of the Consumer Financial Protection Bureau (CFPB), as well as the agency's compliance with CFPB recruitment and selection policies and procedures and certain laws and regulations. To achieve our objective, we reviewed specific CFPB recruitment and selection processes and tested select internal controls related to (1) filling competitive service and excepted service positions, (2) approving recruitment incentives, and (3) executing noncompetitive promotions and reassignments. For the purposes of our internal controls testing, we selected a sample of CFPB hiring activities within these processes that occurred from July 2012 through February 2013. We also evaluated the CFPB's recruitment and selection policies and procedures, including the CFPB's method for measuring the timeliness of its hiring process, and the agency's implementation of select internal controls through December 2014.

The CFPB obtains agreed-upon human capital–related support services from the U.S. Department of the Treasury's Bureau of the Fiscal Service (BFS), Administrative Resource Center (ARC). These services include, among other things, evaluating particular applicants' technical and core competencies to determine which applicants are best qualified for an open position. Evaluating BFS ARC's services was beyond the scope of our review. For additional information regarding our scope and methodology, see appendix A.

Other Reviews of the CFPB's Hiring Processes Related to the Objective for This Evaluation

During the course of our evaluation, multiple external organizations were also reviewing the CFPB's hiring processes. For example, on initiating our evaluation, we learned that the U.S. Office of Personnel Management (OPM) planned to assess the CFPB's delegated examining activities[1] for hiring individuals into competitive service positions that occurred from April 1, 2011, through September 30, 2012, as part of its evaluation of BFS ARC's client agencies. As a result, we designed our evaluation to minimize any duplication of efforts.

During our review period, OPM was also in contact with the CFPB regarding its implementation of a human capital accountability system (HCAS), which OPM reviews, approves, and uses to inform its efforts to assess human capital management in the federal government. Title 5, section 250, of the *Code of Federal Regulations* requires agencies to establish an HCAS to measure and assess human capital management systems for mission alignment; effectiveness; efficiency; and compliance with merit system principles, laws, and regulations. Among other

1. Title 5, section 1104, of the *United States Code* permits the Director of OPM to delegate authority to the heads of executive agencies to examine the qualifications of applicants for admission to the competitive service. Title 5, section 2102, of the *United States Code* describes the *competitive service* as civil service positions within the executive branch. Excepted service positions are those within the executive branch that are specifically excepted from the competitive service by statute, the President, or OPM. 5 U.S.C. § 213.101.

requirements, the HCAS must be formal, documented, and approved by OPM, and it must assess agencies' human resources programs for effectiveness and compliance with merit system principles and related civil service requirements.[2] According to a CFPB official, the CFPB postponed the full implementation of its HCAS after consulting with and receiving concurrence from OPM about anticipated revisions to both title 5 of the *Code of Federal Regulations* and related OPM guidance. The CFPB's Office of Human Capital (OHC) plans to implement its HCAS within 90 days of the issuance of the revisions. Therefore, because the revised OPM guidance has not been issued, and to avoid duplication of effort with OPM, we did not comment on the CFPB's HCAS implementation.

In addition to human capital–related reviews performed by OPM during the course of our review, our office and the U.S. Government Accountability Office (GAO) received separate congressional requests pertaining to various aspects of the CFPB's hiring practices. On March 24, 2014, we received a congressional request to assess the CFPB's activities related to diversity and inclusion. As part of the audit conducted pursuant to that request, we reviewed relevant human resources–related operations, policies, and procedures (e.g., performance management, hiring, and promotions) to determine whether adequate controls were established to prevent and detect bias or discrimination. We issued our report on March 4, 2015.[3] In addition, GAO received a congressional request on July 18, 2014, to examine specific CFPB personnel management issues, including any unlawful or irregular practices regarding workforce planning, hiring, compensation, and promotion. At the time we issued this report on the CFPB's hiring processes, GAO had not yet completed its review.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established the CFPB as an executive agency, defined in title 5, section 105 of the *United States Code*, and as a bureau within, yet autonomous from, the Federal Reserve System. The Dodd-Frank Act authorized the Director of the CFPB to hire employees in accordance with the applicable provisions of title 5 of the *United States Code*, which permits executive agencies to hire employees into competitive service and excepted service positions.[4] The CFPB's human capital programs and practices must largely adhere to title 5, sections 2301 and 2302, of the *United States Code*, which establish merit system principles and prohibited personnel practices, respectively. In addition, title 5, chapter 33, of the *United States Code*, and the requisite implementing regulations, establish procedures for the examination, selection, and placement of civil service employees in the executive branch.

2. 5 C.F.R. § 250.203. In addition, agencies are required to submit a Human Capital Accountability Report to OPM for review and approval on an annual basis.

3. Office of Inspector General, *The CFPB Can Enhance Its Diversity and Inclusion Efforts*, OIG Report No. 2015-MO-C-002, March 4, 2015.

4. The competitive service hiring authority allows the CFPB to fill positions through open competition among the general public. Under the excepted service hiring authority, the CFPB can fill positions outside the competitive service that are specifically excepted by statute, the President, or OPM. There are a number of other governmentwide hiring authorities available to the CFPB, including those related to the hiring of veterans and their family members, individuals with disabilities, Peace Corps staff and volunteers, and students.

With the exception of veterans' preference provisions, the Dodd-Frank Act granted the CFPB interim authority to waive the requirements of title 5, chapter 33, of the *United States Code*, and the requisite implementing regulations.[5] This waiver authority provided the CFPB with the flexibility to fill positions as excepted service positions that would otherwise be filled through the competitive service. Nonetheless, the Dodd-Frank Act still required the CFPB to appoint employees on terms and conditions that are consistent with section 11(1) of the Federal Reserve Act, while providing for

- fair, credible, and transparent methods of establishing qualification requirements for, recruitment for, and appointments to positions
- fair and open competition and equitable treatment in the consideration and selection of individuals to positions
- fair, credible, and transparent methods of assigning, reassigning, detailing, transferring, and promoting employees[6]

To address the Dodd-Frank Act's provisions pertaining to fair, credible, and transparent hiring methods, the OHC has incorporated merit system principles into its policies and procedures, according to CFPB officials. The Civil Service Reform Act of 1978 states that federal personnel management should be implemented consistently with merit system principles and free from prohibited personnel practices. As codified, the nine merit system principles address topics such as recruitment, hiring, and promotions, and fair and equitable treatment in all aspects of personnel management, among others.[7]

The CFPB's Office of Human Capital

On January 9, 2012, *Bureau Order 08-2012* delegated most of the Director's human capital management authority to the Chief Human Capital Officer, who leads the CFPB's OHC. The OHC is responsible for recruiting and retaining CFPB personnel, employee training and workforce development, performance management, and the development of human capital infrastructure and policies. BFS ARC provides agreed-upon human capital–related support services to the CFPB, such as determining which applicants meet minimum qualifications.

The OHC developed the *CFPB Human Capital Strategic Plan FY2013–FY2015* to provide the CFPB with a road map of human capital initiatives and priorities. The *CFPB Human Capital Strategic Plan FY2013–FY2015* aligns with an outcome included in the *Consumer Financial Protection Bureau Strategic Plan FY2013–FY2017*, which is to "attract, engage, and deploy a workforce that meets dynamic challenges and provides effective oversight of the consumer financial marketplace." To achieve this outcome, the CFPB has steadily expanded its workforce

5. The CFPB's interim authority to waive the requirements of title 5, chapter 33, of the *United States Code*, and the requisite implementing regulations, expired July 21, 2015.

6. 12 U.S.C. § 5493.

7. 5 U.S.C. § 2301(b).

in recent years. The CFPB reported that its staff increased from 212 employees at the agency's inception in July 2011 to 1,428 in December 2014.[8]

The CFPB's Hiring Processes

The CFPB's standard hiring process begins when a hiring manager within a program office contacts the OHC about an identified staffing need. In coordination with the program office hiring manager, and with BFS ARC when applicable, the OHC will determine the appropriate strategies to fill the vacancy and will implement several steps to recruit, evaluate, and select new employees. The OHC's standard operating procedure (SOP), *Hiring Process (Recruitment)*, describes many of the steps to be taken throughout the hiring process, including the following:[9]

1. **Identify hiring, recruitment, and selection strategies.** The OHC confirms that a vacant position is authorized and then works with the hiring manager to determine the appropriate hiring, recruitment, and assessment strategies. These strategies respectively define the appointment authority and type that will be used to fill the position, the applicant pools that should be targeted, and the assessment methods and tools to evaluate applicants' minimum qualifications and technical and core competencies.

2. **Develop a recruitment package.** The OHC coordinates with the hiring manager to develop a recruitment package that includes the position description, a job analysis that defines the required competencies, and a statement describing any necessary specialized experience.

3. **Post a vacancy announcement.** The OHC develops vacancy announcements for executive positions, and BFS ARC develops vacancy announcements for nonexecutive positions. Vacancy announcements are typically posted on the CFPB's public website and on USAJobs.gov, the federal government's website for job announcements and employment information.[10]

4. **Review applications.** When the vacancy announcement closes, the applicants' minimum qualifications, technical competencies, and core competencies are evaluated by the OHC for executive positions and by BFS ARC for nonexecutive positions.

5. **Create a certificate of eligibles.** Applicants who meet the minimum qualifications and possess the required technical and core competencies are placed in rank order on a certificate of eligibles, from which selections may or may not be made. BFS ARC

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8. In addition to hiring personnel, the CFPB augmented its staff with transferees from other federal agencies. In accordance with the Dodd-Frank Act, the CFPB transferred in 232 employees from the Office of the Comptroller of the Currency, the former Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the U.S. Department of Housing and Urban Development.

9. Since we conducted our testing, the OHC has updated its hiring policy. The OHC's *Hiring, Promotions, and Internal Movements Policy*, dated August 11, 2014, establishes specific policies and procedures for hiring and promoting CFPB employees and executives and for effecting internal personnel movements.

10. The CFPB posts vacancy announcements for executive positions on the CFPB's public website but not on USAJobs.gov.

evaluates applicants' technical and core competencies to determine which applicants are best qualified for the position.[11]

6. **Conduct interviews and perform reference checks.** The hiring manager may evaluate the best-qualified applicants using methods such as interviews and reference checks, as outlined in the established selection strategy.

7. **Select a candidate and extend a job offer.** If the hiring manager decides to select an applicant for the position, the OHC works with the hiring manager to determine the appropriate salary to offer, to take the necessary actions to extend a job offer or recruitment incentive (if applicable), and to onboard the employee.

Certain hiring steps within the CFPB's process, such as selecting applicants from a certificate of eligibles, are consistent with the competitive service requirements of title 5, chapter 33, of the *United States Code*. Under the Dodd-Frank Act, which temporarily waived specific title 5 requirements, the CFPB had the flexibility to fill positions without adhering to the competitive service process while providing for fair, credible, and transparent hiring practices. According to CFPB officials, the OHC's policies and procedures incorporated title 5 requirements to address the Dodd-Frank Act's provisions pertaining to fair, credible, and transparent hiring methods. For example, the CFPB's *Excepted Service Non-Executive Positions Under Waiver Authority Policy (Interim)* established a hiring process for nonexecutive positions that included some provisions—such as ranking applicants according to relevant competencies—similar to those found in title 5, chapter 33, of the *United States Code*.

Administration of Recruitment Incentives

The OHC's April 2011 *Cash Compensation Program Sign On Bonus* policy (incentive policy) describes the CFPB's process for offering a sign-on bonus to an applicant deemed highly qualified for a position that, under market pressures and in the absence of an incentive, would be difficult to fill.[12] When the OHC determines that a sign-on bonus is warranted, the policy requires that OHC staff complete a sign-on bonus request form (which includes a checklist of factors to document why the position is difficult to fill and thus necessitates a recruitment incentive) and submit it to designated CFPB officials for review and approval. The incentive policy requires the OHC to document the need and rationale for a sign-on bonus, including the relevant Associate Director's justification for the recruitment incentive. The OHC's incentive policy states,

> Sign-on bonuses are designed to assist in recruiting highly qualified, critically necessary employees for positions where there are market pressures that make recruiting difficult or that require special qualification and, in the absence of such bonuses; it would be difficult to attract the candidates needed. Reasons for

11. The CFPB determines the eligible and best-qualified applicants for executive positions. Best-qualified applicants are to be ranked as set forth in title 5, section 3313, of the United States Code and title 5, part 330, of the Code of Federal Regulations.

12. According to OHC officials, while the CFPB has made no specific determination on whether title 5, section 575, of the *Code of Federal Regulations* is applicable, the agency has incorporated provisions of the regulation into the OHC's incentive policy.

approval of sign-on bonuses must be in writing and maintained for purposes of review and/or audit.

If the sign-on bonus request is approved, the OHC will complete a sign-on bonus receipt and service agreement that will be included in the applicant's job offer package. The policy establishes a service agreement form that provides details, such as the timing and amounts of each incentive payment, that are consistent with requirements set forth in title 5, section 575.110, of the *Code of Federal Regulations*.

Promotions and Reassignments

CFPB employees may be promoted or reassigned if they meet certain eligibility requirements. A promotion occurs when an employee moves from his or her current pay grade to a higher pay grade. A reassignment is a move from an employee's current position to a different position without a change in pay grade. Promotions and reassignments can be either competitive or noncompetitive. If a promotion or reassignment is competitive, the position must be advertised as a vacancy announcement, and the hiring process described above is to be followed.

For noncompetitive promotions, including career-ladder promotions,[13] the employee must demonstrate the ability to perform the work required at the next-higher level and be recommended for promotion by his or her supervisor. The employee's supervisor must also obtain OHC approval if a promotion or reassignment is noncompetitive. Specifically, for career-ladder promotions, the OHC's procedures, as well as title 5, section 335.104, of the *Code of Federal Regulations* require that an employee's current performance rating of record be *fully successful* or higher to receive such a promotion. The CFPB updated its noncompetitive promotions program in coordination with the federal union that represents CFPB employees.[14] The revised program, effective June 30, 2014, requires documentation of an employee's performance rating before a noncompetitive promotion can be approved.

Federal Guidance and Standards on Hiring Processes

The OHC is responsible for carrying out its recruitment and selection processes in accordance with certain federal statutes and regulations, as noted above. The OHC uses additional federal guidance and standards related to human capital to inform its processes. Specific guidance and standards that applied to our review of the OHC's hiring processes are detailed below.

13. A career ladder is a series of positions of increasing difficulty through multiple pay grades within an occupational series.

14. In May 2013, CFPB employees voted in favor of representation by the National Treasury Employees Union. Generally, nonsupervisory employees are classified as bargaining-unit employees and are represented by the union. In October 2014, the union and the CFPB established specific collective bargaining agreement articles for telework, promotions, relocation, performance management, compensation, and grievance and arbitration.

Presidential Memorandum and Related OPM Guidance

In May 2010, the *Presidential Memorandum—Improving the Federal Recruitment and Hiring Process* (*Presidential Memorandum*) initiated a hiring reform in the federal government focused on improving the quality and speed of agency hiring. Accordingly, covered agencies are expected to set specific targets for measuring success in their efforts to reduce the time it takes to hire employees. OHC officials stated that the CFPB was not in existence at the time the *Presidential Memorandum* was issued, but they incorporated the principles of the memorandum into their hiring process. A CFPB report to OPM refers to this memorandum, stating that "like all agencies, we strive to fulfill the directives set forth in the President's memorandum."

To support implementation of the *Presidential Memorandum*, OPM issued guidance in April 2011 that describes how to measure and report time-to-hire information. OPM issued updated requirements to support the *Presidential Memorandum* in its March 2014 guidance, which requires agencies to (1) report on time-to-hire statistics on an annual basis, (2) measure time-to-hire in calendar days, and (3) set targets for measuring success in their efforts to reduce the time it takes to hire employees.

OPM also developed the *End-to-End Hiring Initiative*, which encourages agencies to complete the entire hiring process, from identification of a staffing need to onboarding the employee, within 80 calendar days. OPM recognizes that agencies may need to adjust the number of days for each step within the hiring process based on their practices and procedures.

GAO's *Standards for Internal Control in the Federal Government*

Internal control is an integral component of an organization's management and can provide the CFPB with reasonable assurance that it is achieving its human capital objectives, including those related to employee recruitment and selection. GAO's *Standards for Internal Control in the Federal Government* provides the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. GAO's internal control framework contains several components, including control activities and monitoring. Control activities are policies, procedures, and other mechanisms that help ensure that management's directives are achieved. Monitoring activities assess the quality of performance over time and help agencies identify internal control deficiencies. When effectively implemented, the components of internal control can help ensure that agencies meet their program objectives, such as the CFPB's goals related to recruiting and retaining highly qualified staff.

Finding: The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes

The OHC established control activities in the form of policies and procedures related to recruiting and selecting staff, and recent OHC initiatives have strengthened internal controls. Our testing of select controls over the recruitment and selection processes in effect during our review period revealed, however, that OHC personnel did not always follow the control activities established to enforce management's directives. In addition, we found that internal controls can be further enhanced. For example, the agency can improve its ability to track and measure the timeliness of its hiring as well as monitor recruitment and selection activities for potential deficiencies. According to GAO's *Standards for Internal Control in the Federal Government*, internal control contributes to management's ability to efficiently and effectively achieve its goals and objectives. Thus, effective internal control contributes to the CFPB's ability to recruit highly qualified staff in a timely manner. By effectively implementing controls, the OHC can help ensure that its internal policies are followed and that potential process improvements are identified.

The CFPB's Established Hiring Controls Were Not Always Followed

The OHC has established control activities, such as those embodied in its recruitment and selection policies and procedures. However, our control testing showed instances in which OHC personnel did not consistently follow OHC policies and procedures.

Competitive Service and Excepted Service Hiring Activities

Our testing of select controls related to hiring activities found that the vacancy announcements within our sample,[15] which included waiver-authority positions,[16] were posted on USAjobs.gov or consumerfinance.gov, and applicants' experience and minimum qualifications were assessed. In addition, a position description was established and approved prior to posting the vacancy announcement. For the vacancy announcements we reviewed, however, we found that not all job analysis forms had evidence of managerial approval.

The OHC uses job analysis forms to document the knowledge, skills, and abilities that are essential to the position or to enhance performance in the position. This analysis informs how the OHC develops its assessment criteria for each position. The OHC's SOP, *Hiring Process (Recruitment)*, requires an OHC administrator and the hiring manager to validate and approve the job analysis for each vacancy announcement. The job analysis forms for 18 of the 20 vacancy announcements we reviewed did not have evidence of the hiring manager's approval, and 9 of those 18 did not have evidence of the OHC administrator's approval. Without an

15. For a summary of select testing results for the 20 vacancy announcements we reviewed, see appendix B.

16. As noted earlier, under the Dodd-Frank Act, which temporarily waived specific title 5 requirements, the CFPB had the flexibility to fill positions without adhering to the competitive service process while providing for fair, credible, and transparent hiring practices.

appropriately validated and approved job analysis form, the OHC cannot be certain that the knowledge, skills, and abilities essential to a position are identified and considered during the recruitment and selection process. The job analysis form, which facilitates this requirement, had a signature line only for the OHC administrator; however, the form has since been revised to include a signature line for the hiring manager.

Administration of Recruitment Incentives

In our review of a sample of recruitment incentives, we found instances in which incentive requests and service agreements were not completed using forms prescribed in the OHC's incentive policy. For example, none of the recruitment incentives we reviewed were authorized using the required incentive request form, which the OHC's incentive policy requires to be signed by the Chief Human Capital Officer, the Chief Operating Officer, the relevant manager, and the applicable Associate Director. Although our review of ad hoc documentation that personnel created found that not all required signatures were obtained, each of the five recruitment incentives in our sample was reviewed and approved by either the Chief Human Capital Officer or the Director of the CFPB (and thus was in compliance with applicable regulations).[17]

We also found that none of the recruitment incentives we reviewed were issued using the required service agreement form established by the CFPB's internal policy. The OHC's incentive policy requires the use of a specific service agreement form that includes information consistent with specific requirements set forth in title 5, section 575.110, of the *Code of Federal Regulations*. Each employee who receives a recruitment incentive must sign a service agreement with the OHC acknowledging that he or she must fulfill the required time in service to be eligible for the full amount of the incentive. Because the appropriate service agreement form was not used for any of the five recruitment incentives we reviewed, these recruitment incentives were issued without specifying the method of paying the incentive and the timing and amounts of each incentive payment, which is information consistent with title 5, section 575.110, of the *Code of Federal Regulations*. OHC management acknowledged that service agreements for the recruitment incentives we reviewed were not issued using the required service agreement form in accordance with OHC policy.[18]

Based on observations about recruitment incentives that we communicated to the CFPB, the OHC completed a review in December 2014 to assess whether sign-on bonuses were appropriately documented. The review covered sign-on bonuses extended to employees from July 31, 2011, through June 17, 2013.[19] Consistent with the OIG's observations, the OHC found instances when forms required by the OHC's incentive policy were not used to document the approval and issuance of sign-on bonuses. The OHC stated its intention to fully

17. Consistent with the requirements set forth in title 5, section 575.107, of the *Code of Federal Regulations*, recruitment incentives must be reviewed and approved by an authorized agency official who is at least one level higher than the employee's supervisor.

18. The service agreements completed for the five recruitment incentives we sampled established a requirement to repay the incentive if the employee does not complete a service period of one year. Each of the five employees in our sample fulfilled the required time in service.

19. The OHC's review stated that no recruitment incentives were extended to employees from June 18, 2013, to March 13, 2014, prior to the commencement of the review in April 2014. The source document used to conduct this review was a data report generated by the National Finance Center on March 13, 2014.

comply with the incentive policy by using the required forms, including the incentive request form and service agreement form. By using the required forms, the OHC can better ensure that recruitment incentives are appropriately issued in compliance with OHC policies and in a manner consistent with applicable regulations.

Recent OHC Initiatives Improved Certain Controls; However, Further Enhancements Can Be Made

The OHC has improved certain controls related to the recruitment and selection activities we reviewed. The OHC hired an internal control specialist in April 2013 to help identify gaps in the office's internal control framework and to support the OHC's efforts to implement monitoring initiatives. In addition, we noted three recent OHC initiatives that improved internal controls for recruitment and selection.

- **Standard Operating Procedure Initiative—**As noted in our testing results, CFPB personnel did not always complete control activities that were prescribed in the OHC's policies and procedures. According to GAO's *Standards for Internal Control in the Federal Government*, a key aspect of effective internal control is that management communicates policies and procedures to employees so that they can implement control activities for their assigned responsibilities. On December 2, 2014, the OHC completed its Standard Operating Procedure Initiative to centralize and make available electronically all OHC policies and procedures. The Standard Operating Procedure Initiative includes a central online directory of all OHC SOPs and an associated SOP user guide that explains both the process for drafting SOPs and directions for navigating the directory. We concluded that the Standard Operating Procedure Initiative can improve communication to OHC employees of new and existing policies and procedures, including reinforcing the use of required forms.

- **Career Ladder Promotions Program—**Consistent with title 5, section 335.104, of the *Code of Federal Regulations*, OHC policy requires that an employee meet the *fully successful* performance rating standard to receive a career-ladder promotion. At the time of our testing, however, the CFPB's internal policy, *Merit Promotion and Internal Placement Plan Policy (Interim)*, did not require documentation confirming that an employee met the *fully successful* threshold before receiving a career-ladder promotion. The OHC recently issued changes to its policies, which include updates to how career-ladder promotions should be documented, as a result of negotiations with the National Treasury Employees Union. Under the new Career Ladder Promotions Program, which became effective June 30, 2014, if a manager recommends that an employee be promoted, the manager must (1) validate that the employee met the promotion requirements and (2) send a justification to the appropriate office director for final approval. We concluded that appropriately documenting career-ladder promotions, as required under the new program, will help the OHC monitor compliance with applicable regulations related to career-ladder promotions.

- **Hiring Policy—**On August 11, 2014, the OHC updated its hiring policy to include a requirement for the hiring manager to document his or her selection decision. During our testing period, the OHC's previous policy noted that hiring managers were to inform the OHC of the selection decisions but did not require documentation from the hiring manager when no selection was made. During our testing, we noted one

instance in which documentation was not available to explain why a hiring manager did not make a selection. The *Hiring, Promotions, and Internal Movements Policy*, which became effective after our testing period, states that selection decisions are to be communicated in writing to the OHC. The policy elaborates that the documentation requirement would also apply to instances in which (1) no selection was made or (2) a selection was made from a source other than the certificate of eligibles. If no selection was made, the hiring manager should include an explanation. By strengthening this documentation requirement, the OHC will improve the transparency of its hiring decisions, including when no selections are made.

Notwithstanding these improvements, our evaluation identified areas in which enhanced internal controls can assist the OHC in achieving its recruitment and selection goals.

Staffing Efficiency Performance Metric

The OHC has four key performance metrics related to human capital: (1) workforce technical competence, (2) workforce diversity, (3) quality of hire,[20] and (4) staffing efficiency.[21] At the time of our review, we found that the OHC had finalized three performance metrics related to the OHC's hiring process; however, as of December 31, 2014, it had not yet finalized the staffing efficiency performance metric, which assesses hiring timeliness.

The *Presidential Memorandum* and OPM guidance state that agencies are expected to set specific targets for measuring success in their efforts to reduce the time it takes to hire employees. In reviewing the time taken to fill vacancy announcements, we found that the OHC has not developed procedures to compare actual performance to specific target completion dates for each step in the CFPB's hiring process. The OHC provides reports quarterly to CFPB senior management on the time it takes hiring managers to select an applicant from the certificate of eligibles, but it does not track other key steps in the hiring process and compare them with targeted completion dates.

The OHC is in the process of developing an internal policy that documents the target completion dates for each step in the hiring process and the procedure for tracking and reporting on hiring performance. Additionally, to implement the staffing efficiency performance metric, the OHC is designing an end-to-end hiring timeline using the steps identified in OPM's 80-calendar-day standard. The OHC has initiated efforts to track, monitor, and report on steps in the hiring process and has worked with BFS ARC to receive reports for BFS ARC's hiring steps. While the staffing efficiency performance metric has not been fully implemented, these efforts will help inform the OHC's draft internal policy on target completion dates. Finalizing this internal policy and implementing the staffing efficiency performance metric will assist the CFPB in adhering to the goals of the *Presidential*

20. During the time of our review, we found that, to implement the third performance metric, the OHC began administering a Hiring Manager Survey to supervisors in October 2013 that assesses the hiring managers' satisfaction with several quality-of-hire aspects, such as new hires' organizational fit, level of competency, and learning curve. In August 2014, the CFPB issued its first report on this performance metric, titled *CFPB Hiring Manager Survey.*

21. The first two performance metrics were not within the scope of this review. For additional information on recent OIG work related to the CFPB's diversity and inclusion efforts, see Office of Inspector General, *The CFPB Can Enhance Its Diversity and Inclusion Efforts*, OIG Report No. 2015-MO-C-002, March 4, 2015.

Memorandum and OPM guidance by measuring the timeliness of the CFPB's hiring process and providing data to inform any improvements, if needed.

Recruitment and Selection Monitoring Activities

During our review period, the OHC completed a detailed survey to identify and evaluate the adequacy of internal controls in its office as well as across the CFPB. The OHC's survey is part of the CFPB's agency-wide continuous monitoring and periodic evaluation activities, which include an agency-wide risk assessment. However, the results of the OHC's most recent survey did not evaluate the adequacy of internal controls specifically related to the CFPB's recruitment and selection processes.

According to GAO's *Standards for Internal Control in the Federal Government*, the monitoring of controls can help identify deficiencies and ensure that issues are promptly resolved. The CFPB's Chief Operating Officer said that the CFPB's agency-wide evaluation activities could be enhanced to monitor risks related to the recruitment and selection processes. The OHC plans to formally document all existing monitoring activities, develop new monitoring activities, and establish a schedule to formally review and assess the results of these monitoring activities. As of December 14, 2014, the office had not yet completed the effort to formally document all current monitoring activities for recruitment and selection processes. Until comprehensive monitoring activities are implemented, the OHC cannot fully assess whether internal control activities related to the CFPB's recruitment and selection processes are designed and operating effectively.

Conclusion

Although the OHC established control activities in policies and procedures, we found that certain control activities were not always followed and monitoring activities were not fully developed. The OHC has taken action to improve its internal control framework by completing a review of recruitment incentives and establishing a central directory of SOPs. In addition, the OHC is in the process of establishing a policy and finalizing the staffing efficiency performance metric that will better enable the agency to assess the timeliness of its hiring process. By enhancing its monitoring activities and completing efforts related to measuring hiring timeliness, the OHC can further improve its internal control framework, help ensure that control activities are functioning as designed, and more effectively evaluate the efficiency of its hiring processes.

Recommendations

We recommend that the Chief Human Capital Officer

1. Enhance the OHC's monitoring efforts by including additional steps designed to assess whether internal controls related to the CFPB's recruitment and selection processes are designed and operating effectively.

2. Fully implement the staffing efficiency performance metric, finalize the internal policy that defines target completion dates for each hiring step, and finalize a process to track actual performance against target completion dates.

Management's Response

The Chief Human Capital Officer concurs with our recommendations. For recommendation 1, the Chief Human Capital Officer states that the OHC will formally document all activities that are currently being performed around the recruitment and selection process, including new monitoring activities that will be developed. Additionally, the Chief Human Capital Officer states that the OHC will establish a schedule on which to formally review and assess the results of monitoring activities. These efforts are scheduled to be completed by March 31, 2016.

For recommendation 2, the Chief Human Capital Officer states that since the conclusion of the OIG's evaluation, the OHC has implemented an automated tool to track the completion dates for each step in the hiring process. This tool will be used to determine baseline performance and then to set target completion dates for each hiring step. The Chief Human Capital Officer also notes that once target completion dates are set, the OHC will finalize an internal policy to document the metrics that it will track and report. These efforts are scheduled to be completed by December 31, 2015.

OIG Comment

The actions described by the Chief Human Capital Officer appear to be responsive to our recommendations. We plan to follow up on the CFPB's actions to ensure that all recommendations are fully addressed.

Appendix A
Scope and Methodology

To accomplish our objectives, we gained an understanding of the CFPB's employee recruitment and selection processes by interviewing staff in the OHC. We reviewed the CFPB's recruitment and selection policies and procedures, including the *CFPB Human Capital Strategic Plan FY2013–FY2015*, the OHC's SOP for recruitment, the incentive policy, the *Career Ladder Promotions Checklist*, and the Standard Operating Procedure Initiative. In addition, we reviewed applicable laws and regulations and relevant guidance, including GAO's *Standards for Internal Control in the Federal Government*, OPM's *End-to-End Hiring Initiative*, and the *Presidential Memorandum*.

To assess the efficiency, effectiveness, and compliance of the CFPB's employee recruitment and selection processes against the applicable criteria, we performed the following:

- We reviewed previous independent performance audits of the CFPB's operations and budget that contained recommendations regarding talent management and recruitment.

- We assessed the CFPB's efforts to measure the timeliness of its hiring process, from initiation of the hiring request through the hired candidate's first day of employment, to test process efficiency.

- We tested compliance by reviewing vacancy announcement case files, including position descriptions; job analysis forms; specialized experience statements; and evaluation support, such as assessment questions and crediting plans. However, we did not evaluate applicants' qualifications or competencies against the position requirements.

In addition, to assess the extent to which the OHC has processes to identify control deficiencies within recruitment and selection activities, we evaluated the OHC's implementation of certain monitoring activities through December 2014. To test control activities, we also judgmentally selected a sample of vacancy announcements, recruitment incentives, and noncompetitive promotions and reassignments, factoring in the variables outlined below. We compiled the population of vacancy announcements for July 1, 2012, through February 28, 2013, from information provided by the CFPB. We selected our samples to include

- each type of recruitment and selection activity shown in table A-1
- vacancies for both executive and nonexecutive positions
- recruitment or selection activity within each of the CFPB's six divisions
- vacancy announcements that were posted for each month of our sample review period

Because we used a judgmental sampling method, the results of our testing are not representative of the entire population. We used certain laws and regulations, the CFPB's policies and procedures related to employee recruitment and selection, and other relevant guidance as criteria for our detailed testing.

Table A-1: CFPB Employee Recruitment and Selection Activities, Population and Sample Size, July 1, 2012, Through February 28, 2013

Activity	Population (number of activities identified)	Sample (number of activities reviewed)
Competitive service vacancy announcement	130	7
Excepted service vacancy announcement	250	13[a]
Recruitment incentive	25[b]	5
Noncompetitive promotion	108	4
Noncompetitive reassignment	150	6
Total	**663**	**35**

Source: The OIG compiled the population for July 1, 2012, through February 28, 2013, based on information provided by the CFPB. Competitive service and excepted service information was recorded in BFS ARC's Classification and Recruitment Reporting System, and recruitment and relocation incentives and noncompetitive promotions and reassignments were recorded in the National Finance Center Reporting System. The National Finance Center is an OPM-certified shared service provider of human resources and payroll services within the U.S. Department of Agriculture.

[a]Eight of these 13 vacancy announcements were advertised as excepted service waiver authority positions under the Dodd-Frank Act (12 U.S.C. § 5493).

[b]During the period of our review, the CFPB issued 25 recruitment incentives totaling $112,000; the median incentive was $2,000.

We did not review the CFPB's workforce planning, compensation and benefits (with the exception of recruitment incentives), onboarding processes, or diversity and inclusion programs.[22]

We conducted our evaluation fieldwork from March 2013 through December 2014. We conducted this evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

22. We did not review relocation incentives because, according to an OHC official, the CFPB did not offer relocation incentives during our period of review. We confirmed that no relocation incentives were issued by examining a report of all recruitment and relocation incentives issued by the CFPB during our review period.

Appendix B
Analysis of a Sample of Excepted Service and Competitive Service Vacancy Announcements

Table B-1: Summary of Select Testing Results for the 20 CFPB Vacancy Announcements Reviewed by the OIG, Sample From July 1, 2012, Through February 28, 2013

Recruitment or selection step	Excepted service[a]	Competitive service
The hiring manager coordinated with the OHC.	13 of 13 had evidence of this step.	7 of 7 had evidence of this step.
A position description and evaluation method was established prior to posting the vacancy announcement.	13 of 13 had evidence of this step.	7 of 7 had evidence of this step.
The position description and job analysis was reviewed and approved by both the hiring manager and an OHC official.	13 of 13 had evidence of this step for the position description. See this report's finding related to job analysis forms.	7 of 7 had evidence of this step for the position description. See this report's finding related to job analysis forms.
The position was posted on either USAjobs.gov or consumerfinance.gov.	13 of 13 had evidence of this step.	7 of 7 had evidence of this step.
Applicants' experience and qualifications were assessed.	13 of 13 had evidence of this step.	7 of 7 had evidence of this step.
The hiring manager made a selection from the certificate of eligibles.	10 of 13 had evidence of this step; according to OHC documents, the remaining 3 had the following explanations: • No certificate of eligibles was issued because there was only one qualified applicant for the position. • No certificate of eligibles was issued because the opening was for a limited-term appointment, for which OHC policy did not require a certificate of eligibles. • No selection was made under the vacancy announcement we reviewed, and no documentation was available regarding why no selection was made. See the report's section related to recent OHC initiatives, which includes an update to the OHC's hiring policy in this area.	4 of 7 had evidence of this step; according to OHC documents, the remaining 3 had the following explanations: • The position was announced as an Interagency Career Transition Assistance Program[b] vacancy and had no eligible applicants. Afterward, the CFPB attempted to fill the position via the appointment of former ACTION volunteers authority.[c] The applicant declined the offer; thus, no personnel action was taken. • The position was announced as an Interagency Career Transition Assistance Program vacancy and had no eligible applicants. The OHC then noncompetitively reassigned a CFPB employee to the position. • The position was announced using both a merit promotion announcement and an excepted service waiver announcement. No selection was made from the merit promotion announcement because the hiring manager made a selection from the excepted service waiver announcement.

Source: OIG analysis of CFPB documents for the sample selected using the methodology in appendix A. Steps taken from CFPB policies and procedures.

[a]Eight of the 13 excepted service vacancy announcements in our sample were under waiver authority.

[b]The Interagency Career Transition Assistance Program is a process by which employees who have been displaced may receive selection priority for jobs in agencies other than the one in which they were previously employed (5 C.F.R. part 330, subpart G).

[c]This authority allows an executive agency to noncompetitively appoint (for other than temporary employment) a person who has volunteered in certain approved federal volunteer programs, such as a full-time community service volunteer under part C of title I of Pub. L. No. 93-113 or a Peace Corps volunteer.

Appendix C
Management's Response

Consumer Financial Protection Bureau

1700 G Street, N.W., Washington, DC 20552

August 14, 2015

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

RE: Evaluation of the CFPB's Employee Recruitment and Selection Processes

Dear Ms. Heist,

Thank you for the opportunity to review and comment on the Office of Inspector General's draft report titled, "The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes". We have reviewed the report and appreciate the two recommendations provided.

1. Enhance the Office of Human Capital's monitoring efforts by including additional steps designed to assess whether internal controls related to the CFPB's recruitment and selection processes are designed and operating effectively.

Management concurs with this recommendation. In an effort to enhance the monitoring process, the Office of Human Capital (OHC) will formally document all activities that are currently being performed around the recruitment and selection process, including new monitoring activities that will be developed in response to the OIG's review. OHC will also establish a schedule on which to formally review and assess the results of these monitoring activities. We will complete this by March 31, 2016.

2. Fully implement the staffing efficiency performance metric, finalize the internal policy that defines target completion dates for each hiring step and finalize a process to track actual performance against the target completion dates.

Management concurs with this recommendation. Since the conclusion of the OIG's evaluation, OHC has implemented a new automated tool to track completion dates for each step in the hiring process and begun populating the tool with data from CFPB hiring actions. That data

will be used to determine the Bureau's actual "baseline" performance, and then to set target completion dates for each step in the hiring process. Once target completion dates are set, we will finalize an internal policy to document the metrics that we will track and report. CFPB is on track to implement the tracking and reporting process by the end of the current calendar year.

We appreciate the OIG's thorough review of the OHC's employee recruitment and selection processes. Your recommendations will help CFPB to further enhance its hiring process and associated internal control functions.

Sincerely,

Jeffrey Sumberg
Chief Human Capital Officer

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