SEMIANNUAL
REPORT TO CONGRESS
April 1, 2015–September 30, 2015

Office of Inspector General

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

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Message From the Inspector General

Mark Bialek
Inspector General

Over the last six months, we provided robust oversight of the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB). This is particularly true of the CFPB, as 8 of the 11 audit and evaluation reports that we issued were on CFPB programs or operations. We issued reports on the CFPB's headquarters renovation, contract management, and coordination with other prudential regulators, among others.

We also completed significant information technology audits. Our Information Technology Audits group completed security control reviews of the CFPB's Data Team Complaint Database and of the Board's C-SCAPE application, as well as an audit of the Board's data center relocation. We also focused on closing out past audit recommendations, resulting in the closure of 48 recommendations during this reporting period.

Our investigative work led to important indictments, convictions, and sentencings of bank officers who committed wrongdoing. Most notably, we played a vital role in the investigation of a former United Commercial Bank officer whose fraudulent activities contributed to bank losses exceeding $677 million, which led to one of the most significant prosecutions to arise out of the 2008 financial crisis. In addition, our investigation of a former Chief Executive Officer and Chairman of Voyager Bank resulted in a guilty plea for obstructing a bank examination. Bank examinations are the means by which the Board determines the safety and soundness of financial institutions.

We issued our second-ever lists of major management challenges to the Board and the CFPB. These lists largely include the same issues that we reported on last year. For this year, we added cybersecurity to the Board's list of challenges. For the CFPB, we removed the challenge associated with improving the operational efficiency of supervision because the CFPB has done significant work to reduce the backlog of examination reports and to improve the examination process.

In addition to making recommendations to improve the programs and operations of the Board and the CFPB, we also looked inward in an effort to continuously improve our own operational effectiveness and to improve our outreach to stakeholders. For example, we surveyed our auditees to gain the perspectives of our agency stakeholders, and we joined Twitter to expand our public communication sphere.

Our activities during this period demonstrate that we are well positioned to, and indeed do, provide the vigorous oversight of the Board and the CFPB that Congress and the public seek. We will continue our work to ensure that both agencies operate effectively and in an accountable and transparent manner.

My thanks go to the Board and the CFPB, for their continued support of our efforts to improve the efficiency and effectiveness of their programs and operations, and to our staff members, for their dedication to our mission and their exemplary work during this reporting period.

Sincerely,

Mark Bialek
Inspector General
October 30, 2015

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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.

Management Challenges for the Board and the CFPB. We issued our memorandums on the major management challenges facing the Board and the CFPB. These challenges identify the areas that, if not addressed, are most likely to hamper the Board's and the CFPB's accomplishment of their strategic objectives. We listed six major management challenges for the Board and four major management challenges for the CFPB.

Audits, Evaluations, and Inspections

11 reports issued	**3** Board **8** CFPB
48 recommendations closed	**32** Board **16** CFPB

The CFPB's Headquarters Renovation. We conducted an audit related to the CFPB's headquarters renovation project. Overall, we found that construction costs appear reasonable and that potential renovation costs are below the amount previously budgeted and obligated for the renovation. We also found that current controls for approving, managing, and documenting renovation costs and project decisions are designed appropriately. However, because most construction cost-management control activities have not yet begun, we were not yet able to test the operating effectiveness of those controls. We found that the CFPB did not fully comply with the agency's Investment Review Board guidance for approving renovation costs.

The CFPB's Data Team Complaint Database. We completed an audit of the CFPB's Data Team (DT) Complaint Database. The DT Complaint Database supports the CFPB's Consumer Response System and is the source of consumer complaint information published on the CFPB's public website. We evaluated the adequacy of selected security controls for protecting that database from unauthorized access, modification, destruction, or disclosure, as well as the system's compliance with the Federal Information Security Management Act of 2002, as amended by the Federal Information Security Modernization Act of 2014 (FISMA), and the information security policies, procedures, standards, and guidelines of the CFPB. We found that the CFPB can strengthen controls for the DT Complaint Database.

Congressional Request Regarding the Independent Foreclosure Review. We reviewed issues related to the group of borrowers, referred to as the in-scope borrower population, for the Independent Foreclosure Review (IFR) and the subsequent payment agreement. The IFR process allowed borrowers who felt harmed by unsafe and unsound mortgage practices to submit a request to have their mortgage file reviewed. Overall, we concluded that the Board used an inclusive approach that involved adding borrowers to the in-scope population when discretion was required throughout the IFR process. This inclusive approach was apparent during the Board's supervision of the servicers' identification of the in-scope population and the Board's approach to resolving complaints related to the IFR and the payment agreement.

The CFPB's Contract Management Processes. We conducted an audit to assess the CFPB's compliance with applicable laws, regulations, and CFPB policies and procedures related to contract management, as well as the effectiveness of the CFPB's internal controls related to contract management. In general, we found the CFPB to be in compliance with applicable laws, regulations, and CFPB policies and procedures, although we noted that certain contract management controls could be improved in certain instances. We also noted that the CFPB's Office of Minority and Women Inclusion has not developed required standards and procedures to ensure that minority-owned and women-owned businesses are considered for CFPB procurements, including procedures that will enable the CFPB to know whether contractors

have failed to make a good faith effort to include minorities and women in their workforce.

The Relocation of the Board's Data Center. We completed our third and final review of the Board's efforts to complete the production migration of servers and applications to its new data center. We concluded that the Board is continuing to follow a structured approach for planning and executing the relocation of the data center, and that Board staff members are actively engaged in planning and decisionmaking for the project. We followed up on open recommendations from our two prior data center relocation reports and determined that sufficient corrective actions have been taken to close the recommendations. We believe that the Board has established an appropriate control environment around the data center relocation, and based on our review, the project appears to be on track for successful completion by December 2015. As a result, our report contains no recommendations.

Investigations

17
cases opened

23
cases closed

10
matters for prosecutorial consideration

9
indictments

$348,000
in criminal fines, restitution, and forfeiture

United Commercial Bank Official Sentenced for Felony Fraud Conviction. The former Chief Operating Officer and Chief Credit Officer for United Commercial Bank (UCB) of San Francisco, California, was sentenced by a U.S. District Judge to 97 months in prison and three years' supervised release and ordered to forfeit $348,000. UCB's bank holding company, UCBH Holdings Inc., is supervised by the Board. This sentence followed a March 25, 2015, jury trial in U.S. District Court in which the defendant was found guilty of one count each of conspiracy to commit false bank entries, reports, and transactions; false bank entries, reports, and transactions; conspiracy to commit securities fraud; securities fraud; falsifying corporate books and records; false statements to accountants; and circumventing internal accounting controls. These activities were committed as part of a scheme to conspire with others within the bank to falsify key bank records to conceal millions of dollars in losses and to falsely inflate the bank's financial statements.

Former Bank Chief Executive Officer Pleaded Guilty to Obstructing an Examination by the Board. The former Chief Executive Officer (CEO) and Chairman of Voyager Bank and the President and CEO of the bank's holding company, Voyager Financial Services Corporation (VFSC), pleaded guilty to obstruction of a bank examination.

Former Executives of Wilmington Trust Indicted for Conspiracy and False Statements. Four former executives of Wilmington Trust Company (WTC), a state member bank supervised by the Board, were indicted on allegations concerning their respective roles in concealing from the Board, the U.S. Securities and Exchange Commission (SEC), and the public the total quantity of past-due loans on Wilmington Trust's books from October 2009 to November 2010.

Introduction

Congress established the OIG as an independent oversight authority of the Board 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, OIGs are not authorized to perform program functions.

In accordance with the Inspector General Act of 1978, as amended, our office has the following responsibilities:

- to conduct and supervise independent and objective audits, evaluations, 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, including the following:

- Section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires that the OIG review Board-supervised financial institutions that failed when the failure resulted in a material loss to the Deposit Insurance Fund (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.
- The USA Patriot Act of 2001 grants the Board certain federal law enforcement authorities. Our office performs the external oversight function for the Board's law enforcement program.

- The Federal Information Security Management Act of 2002, as amended by the Federal Information Security Modernization Act of 2014, established a legislative mandate for ensuring the effectiveness of information security controls over resources that support federal operations and assets. In accordance with FISMA requirements, we perform annual independent reviews of the Board's and the CFPB's information security program and practices, including the effectiveness of security controls and techniques for selected information systems.
- The Improper Payments Information Act of 2002, as amended (IPIA), requires agency heads to periodically review and identify programs and activities that may be susceptible to significant improper payments. The CFPB has determined that the CFPB's Civil Penalty Fund is subject to IPIA. The Improper Payments Elimination and Recovery Act of 2010 requires our office to determine, each fiscal year, whether the agency is in compliance with IPIA.
- Section 211(f) of the 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. The OIG is to evaluate the effectiveness of the Board's supervision, identify any acts or omissions by the Board that contributed to or could have prevented the company's receivership status, and recommend appropriate administrative or legislative action.
- Section 989E of the Dodd-Frank Act established the Council of Inspectors General on Financial Oversight (CIGFO).[1] CIGFO is required to meet at least quarterly to share information and discuss the ongoing work of each Inspector General (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 an annual report that highlights the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO also has the authority

1. CIGFO comprises the Inspectors General of the Board and the CFPB, the Commodity Futures Trading Commission, the U.S. Department of Housing and Urban Development, the U.S. Department of the Treasury, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, the U.S. Securities and Exchange Commission, and the Office of the Special Inspector General for the Troubled Asset Relief Program.

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.

- The Government Charge Card Abuse Prevention Act of 2012 requires our office to conduct periodic risk assessments and audits of the CFPB's purchase card, convenience check, and travel card programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments.
- Section 11B of the Federal Reserve Act mandates annual independent audits of the financial statements of each Federal Reserve Bank and of the Board. The Board performs the accounting function for the Federal Financial Institutions Examination Council, and we oversee the annual financial statement audits of the Board and of the Federal Financial Institutions Examination Council.[2] Under the Dodd-Frank Act, the U.S. Government Accountability Office performs the financial statement audit of the CFPB.

2. The Federal Financial Institutions Examination Council 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 Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the CFPB and to make recommendations to promote uniformity in the supervision of financial institutions.

Major Management Challenges

Although not required by statute, the OIG annually reports on the major management challenges facing the Board and the CFPB. These challenges identify the areas that, if not addressed, are most likely to hamper the Board's and the CFPB's accomplishment of their strategic objectives.

We identified six major management challenges for the Board this year. The challenge titled Enhancing Oversight of Cybersecurity at Supervised Financial Institutions was added in recognition of the difficult challenges the Board faces in continuing to promote the safety and soundness of financial institutions in an environment in which cyberthreats are increasing and becoming more sophisticated. The 2015 major management challenges for the Board are

- Enhancing Oversight of Cybersecurity at Supervised Financial Institutions
- Ensuring an Effective Information Security Program
- Continuing to Implement a Financial Stability Regulatory and Supervisory Framework
- Building and Sustaining a High-Performing and Diverse Workforce
- Improving Collaboration and Governance
- Maintaining Physical Infrastructure

We identified four major management challenges for the CFPB this year. We removed a challenge listed last year, Improving the Operational Efficiency of Supervision, because the CFPB has done significant work to reduce the backlog of examination reports and improve the examination process. The 2015 major management challenges for the CFPB are

- Ensuring an Effective Information Security Program

- Building and Sustaining a High-Performing and Diverse Workforce
- Strengthening Controls Over Management Operations
- Maintaining Physical Infrastructure

See our website for our full management challenges memorandums to the Board and 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. Evaluations are generally focused on the effectiveness of a specific program or function. 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 and evaluation work completed during the reporting period.

Board of Governors of the Federal Reserve System

Congressional Request Related to the In-Scope Borrower Population of the Independent Foreclosure Review and the Subsequent Payment Agreement

September 30, 2015

We completed our review to address the five questions raised via a congressional request related to the group of borrowers, referred to as the in-scope borrower population, included in the IFR and the subsequent payment agreement established by the Board and the Office of the Comptroller of the Currency with the relevant mortgage servicers.[3] The IFR process allowed borrowers who felt harmed by unsafe and unsound mortgage practices to submit a request to have their mortgage file reviewed. To address the questions within our jurisdiction, we reviewed the results of our prior and current work related to the Board's efforts to validate the in-scope borrower population and all IFR complaints received by the Board from January 2011 through June 2015. Overall, we concluded that the Board used an inclusive approach that involved adding borrowers to the in-scope population throughout the IFR process, using appropriate discretion. This inclusive approach was apparent during the Board's supervision of the servicers' identification of the in-scope population and the Board's approach to resolving complaints related to the IFR and the payment agreement.

The Board Continues to Follow a Structured Approach to Planning and Executing the Relocation of the Data Center

OIG Report No. 2015-IT-B-017 **September 16, 2015**

We completed our review of the Board's efforts to complete the production migration of servers and applications to its new data center. Additionally, we reviewed the ongoing operation

3. For a detailed explanation of the IFR and the subsequent payment agreement, please see Office of Inspector General, *Opportunities Exist to Enhance the Board's Oversight of Future Complex Enforcement Actions,* OIG Report No. 2014-SR-B-015, September 30, 2014.

strategy, including the processes for procuring, inventorying, and disposing of information technology equipment. We also reviewed the commissioning of the data center and followed up on open recommendations from two previously issued reports on the data center relocation.

Overall, we concluded that the Board is continuing to follow a structured approach to planning and executing the relocation of the data center, and that Board staff members are actively engaged in planning and decisionmaking for the project. We found that controls have been implemented to ensure successful migration of all servers and residing applications. We also found that all major equipment functionality was independently validated against design specifications. Finally, we determined that ongoing operations are governed by appropriate policies and procedures and that controls are in place to segregate duties for the procurement, inventory, and disposal of information technology equipment at the data center. During our follow-up on open recommendations from the two prior data center relocation reports, we determined that sufficient corrective actions had been taken to close the recommendations.

We believe that the Board has established an appropriate control environment around the data center relocation, and based on our review, the project appears to be on track for successful completion by December 2015. As a result, our report contains no recommendations.

Security Control Review of the Board's Consolidated Supervision Comparative Analysis, Planning and Execution System

OIG Report No. 2015-IT-B-015 **September 2, 2015**

We completed our security control review of the Board's Consolidated Supervision Comparative Analysis, Planning and Execution System (C-SCAPE). C-SCAPE is intended to provide supervisory teams throughout the Federal Reserve System with tools and methods to plan and execute supervisory events, manage issues, and enhance decisionmaking around the examination planning process. Our audit objective was to evaluate the adequacy of selected security controls implemented by the Board to protect C-SCAPE from unauthorized access, modification, destruction, or disclosure. We also evaluated C-SCAPE's compliance with FISMA

and the information security policies, procedures, standards, and guidelines of the Board.

Overall, we found that the Board has taken steps to secure the C-SCAPE application in accordance with FISMA and the Board's information security program. However, during vulnerability scanning of the databases supporting C-SCAPE, we found vulnerabilities that require the attention of the C-SCAPE application owner and the Board's Division of Information Technology. Additionally, we noted that the C-SCAPE application audit logs do not record certain database activity on financial institution information.

Our report includes recommendations to address C-SCAPE database vulnerabilities. We also identified items for management's consideration that are already being addressed by management. The Chief Information Officer and the Director of the Division of Banking Supervision and Regulation agreed with our recommendations.

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

Report title	Type of report
Security Control Review of the Board's Consolidated Supervision Comparative Analysis, Planning and Execution System	Audit
The Board Continues to Follow a Structured Approach to Planning and Executing the Relocation of the Data Center	Audit
Congressional Request Related to the In-Scope Borrower Population of the Independent Foreclosure Review and the Subsequent Payment Agreement	Evaluation

Total number of audit reports: 2
Total number of inspection and evaluation reports: 1

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

Reports	Number of reports	Questioned costs	Unsupported costs
For which no management decision had been made by the commencement of the reporting period	0	$0	$0
That were issued during the reporting period	0	$0	$0
For which a management decision was made during the reporting period	0	$0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0	$0
For which no management decision had been made by the end of the reporting period	0	$0	$0
For which no management decision was made within six months of issuance	0	$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			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Evaluation of Service Credit Computations	08/05	3	3	–	09/15	3	–
Security Control Review of the Internet Electronic Submission System (nonpublic report)	12/10	6	6	–	03/15	3	3
Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings	06/11	2	2	–	03/15	–	2
Review of the Failure of Pierce Commercial Bank	09/11	2	2	–	05/15	2	–
Evaluation of Prompt Regulatory Action Implementation	09/11	1[b]	1	–	–	–	1
Security Control Review of the National Remote Access Services System (nonpublic report)	03/12	8	8	–	11/14	7	1
Security Control Review of the Board's Public Website (nonpublic report)	04/12	12	12	–	09/15	–	12
Review of the Unauthorized Disclosure of a Confidential Staff Draft of the Volcker Rule Notice of Proposed Rulemaking	07/12	3	3	–	03/15	–	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	–	09/15	9	–
Audit of the Small Community Bank Examination Process	08/12	1	1	–	07/15	–	1
Audit of the Board's Actions to Analyze Mortgage Foreclosure Processing Risks	09/12	2	2	–	03/15	1	1
Security Control Review of the Aon Hewitt Employee Benefits System (nonpublic report)	09/12	8	8	–	12/14	4	4

See notes at end of table.

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		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
2012 Audit of the Board's Information Security Program	11/12	2	2	–	11/14	1	1
Security Control Review of Contingency Planning Controls for the Information Technology General Support System (nonpublic report)	12/12	5	5	–	09/15	3	2
Review of the Failure of Bank of Whitman	03/13	1	1	–	08/15	–	1
Controls over the Board's Purchase Card Program Can Be Strengthened	03/13	3	3	–	09/14	2	1
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	–	03/15	–	2
Security Control Review of the Board's National Examination Database System (nonpublic report)	07/13	4	4	–	09/15	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	–	09/15	9	2
The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control	09/13	1	1	–	09/15	–	1
The Board Should Improve Procedures for Preparing for and Responding to Emergency Events	09/13	7	7	–	09/15	5	2
2013 Audit of the Board's Information Security Program	11/13	2	2	–	12/14	1	1
Audit of the Board's Data Center Relocation	02/14	2	2	–	09/15	2	–

See notes at end of table.

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		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Opportunities Exist to Achieve Operational Efficiencies in the Board's Management of Information Technology Services	02/14	2	2	–	09/15	–	2
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	–	09/14	3	3
The Board Should Enhance Its Policies and Procedures Related to Conference Activities	06/14	5	5	–	05/15	4	1
Enforcement Actions and Professional Liability Claims Against Institution-Affiliated Parties and Individuals Associated with Failed Institutions	07/14	3[b]	3	–	–	–	3
Security Control Review of the Board's E^2 Solutions Travel Management System	08/14	5	5	–	–	–	5
Opportunities Exist to Enhance the Onsite Reviews of the Reserve Banks' Wholesale Financial Services	09/14	1	1	–	–	–	1
Opportunities Exist to Enhance the Board's Oversight of Future Complex Enforcement Actions	09/14	5	5	–	03/15	–	5
The Board Should Enhance Its Supervisory Processes as a Result of Lessons Learned From the Federal Reserve's Supervision of JPMorgan Chase & Company's Chief Investment Office	10/14	10	10	–	09/15	3	7
The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program	10/14	4	4	–	–	–	4

See notes at end of table.

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		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
2014 Audit of the Board's Information Security Program	11/14	1	1	–	–	–	1
Opportunities Exist to Improve the Operational Efficiency and Effectiveness of the Board's Information Security Life Cycle	12/14	3	3	–	–	–	3
Audit of Planned Physical and Environmental Controls for the Board's Data Center Relocation	01/15	1	1	–	09/15	1	–
Review of the Failure of Waccamaw Bank	03/15	5	5	–	–	–	5
The Board Can Enhance Its Diversity and Inclusion Efforts	03/15	11	11	—	09/15	–	11
Security Control Review of the Board's Consolidated Supervision Comparative Analysis, Planning and Execution System	09/15	3	3	–	–	–	3

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. These recommendations were directed jointly to the OCC, the FDIC, and the Board.

Consumer Financial Protection Bureau

CFPB Headquarters Construction Costs Appear Reasonable and Controls Are Designed Appropriately

OIG Report No. 2015-FMIC-C-012 **July 31, 2015**

We completed our audit of the CFPB's headquarters renovation costs. Our objectives for this audit were to (1) evaluate the reasonableness of the overall estimated and proposed costs for the CFPB's headquarters renovation and (2) assess the effectiveness of the CFPB's processes and controls for approving, managing, and documenting headquarters renovation costs and project decisions. Because the construction contract was awarded during the course of our audit, we assessed the costs associated with the awarded contract in lieu of proposed costs.

Overall, we found that construction costs appear reasonable and that potential renovation costs are below the amount previously budgeted and obligated for the renovation. In addition, we conducted a life cycle analysis to compare the costs of renting and renovating the building to leasing comparable space over a 30-year period. We determined that the reasonableness of this decision is highly dependent on the growth in commercial lease rates. Therefore, we identified the approximate growth rate at which our analysis shifts from favoring leasing space to favoring renting and renovating the building. This rate falls within the range of projected growth rates for commercial leases at the time the CFPB agreed to occupy the building. We also found that current controls for approving, managing, and documenting renovation costs and project decisions are designed appropriately; however, because most construction cost-management control activities have not yet begun, we were not yet able to test the operating effectiveness of those controls.

We found that the CFPB did not fully comply with the agency's Investment Review Board guidance for approving renovation costs. Our report contains a recommendation pertaining to this finding. The CFPB concurred with our recommendation.

The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes

OIG Report No. 2015-MO-C-013 **August 26, 2015**

We completed our evaluation of the CFPB's hiring processes. Our evaluation objective was to assess the efficiency and effectiveness of certain activities of the CFPB's 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.

Our evaluation determined that the Office of Human Capital 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 Office of Human Capital personnel did not always follow the control activities established to enforce management's directives. Although recent Office of Human Capital initiatives have strengthened control activities, we found that the office's internal controls can be further enhanced.

Our report includes recommendations designed to improve the efficiency and effectiveness of the Office of Human Capital's employee recruitment and selection processes. The CFPB concurred with our recommendations.

The CFPB Can Enhance Its Contract Management Processes and Related Controls

OIG Report No. 2015-FMIC-C-014 **September 2, 2015**

We completed our audit of the CFPB's contract management processes and related controls. Our audit objective was to assess the CFPB's compliance with applicable laws, regulations, and CFPB policies and procedures related to contract management, as well as the effectiveness of the CFPB's internal controls related to contract management.

In general, we found the CFPB to be in compliance with applicable laws, regulations, and CFPB policies and procedures, although we noted that certain contract management controls could have been improved in 3 contracts among the 29 contracts in our sample. We also found that 32 of the 79 contractor performance evaluations

required by the *Federal Acquisition Regulation* were overdue. Further, the Bureau of the Fiscal Service's Division of Procurement omitted a contract clause designed to clarify the OIG's access to contractor records from 1 of the 10 contracts we sampled for this purpose. The CFPB's Office of Minority and Women Inclusion is required to develop standards and procedures to ensure that minority-owned and women-owned businesses are considered for CFPB procurements, including procedures that will enable the CFPB to know whether contractors have failed to make a good faith effort to include minorities and women in their workforce. Although there is no statutory deadline, these standards and procedures have not yet been developed.

Our report includes recommendations designed to improve the CFPB's contract management processes and related controls. The CFPB concurred with our recommendations.

The CFPB Is in Compliance With IPIA, as Amended

OIG Report No. 2015-FMIC-C-008 **May 7, 2015**

Our audit assessed the CFPB's compliance with IPIA, which requires the head of each agency to periodically review and identify all programs and activities that may be susceptible to significant improper payments. In addition, IPIA requires that each fiscal year, the IG of each agency determine and report on whether the agency is in compliance with the act.

The Dodd-Frank Act established two funds related to the programs and operations of the CFPB: the Bureau Fund and the Civil Penalty Fund. The CFPB has determined that the Bureau Fund is not subject to IPIA because the Dodd-Frank Act provides that funds obtained by or transferred to the Bureau Fund are not to be construed as government funds or appropriated monies. The CFPB has determined, however, that the Civil Penalty Fund is subject to IPIA because the Dodd-Frank Act is silent on whether funds within the Civil Penalty Fund should be construed as government funds or appropriated monies.

Overall, we determined that the CFPB fully complied with the applicable requirements of IPIA for fiscal year 2014 as they relate to the Civil Penalty Fund. Specifically, we determined that the CFPB met the first two IPIA requirements and that the other four

requirements were not applicable. As a result, our report contains no recommendations.

Coordination of Responsibilities Among the Consumer Financial Protection Bureau and the Prudential Regulators—Limited Scope Review

OIG Report No. 2015-SR-X-009 **June 1, 2015**

During a March 20, 2013, hearing held by the Subcommittee on Financial Institutions and Consumer Credit of the House Committee on Financial Services, a concern was raised regarding potential regulatory overlap between the CFPB and the Federal Deposit Insurance Corporation (FDIC). In subsequent conversations, the FDIC OIG notified the subcommittee that it planned to coordinate with the OIGs of the other prudential regulators to assess whether there are overlaps in how the CFPB and the prudential regulators are carrying out their regulatory responsibilities. As such, the FDIC OIG and the OIGs for the Board and the CFPB, the U.S. Department of the Treasury, and the National Credit Union Administration conducted a joint review. The objective of our review was to assess the extent to which the CFPB and the prudential regulators were coordinating their supervisory activities and avoiding duplication of regulatory oversight responsibilities.

At the time of our review, the U.S. Government Accountability Office had completed, ongoing, and planned assignments that evaluated agency coordination efforts, among other matters. In addition, our office issued an evaluation report on the CFPB's supervisory program in March 2014; this evaluation addressed coordination activities between the CFPB and the prudential regulators, among other matters. Accordingly, we tailored our review to complement, but not duplicate, prior work. The OIGs agreed that the objectives of this review could be addressed with a limited-scope review rather than an audit or evaluation. This limited-scope review was not conducted under government audit or evaluation standards, and the OIGs determined that formal recommendations would not be made.

We found that the CFPB and the prudential regulators were generally coordinating their regulatory oversight activities for federal consumer financial laws, consistent with the Dodd-Frank

Act and the provisions of a memorandum of understanding governing coordination activities. Nonetheless, we determined that there are opportunities for enhanced coordination, such as developing a standard CFPB process for notifying the prudential regulators of federal consumer financial law violations by institutions with assets of $10 billion or less and timely notifying the prudential regulators of CFPB information requests made to their regulated institutions. We separately reported our finding and recommendation related to enhanced coordination (see the below summary of OIG Report No. 2015-SR-C-010, *The CFPB Can Enhance Its Process for Notifying Prudential Regulators of Potential Material Violations*). We did not identify any regulatory duplication of oversight responsibilities.

The CFPB Can Enhance Its Process for Notifying Prudential Regulators of Potential Material Violations

OIG Report No. 2015-SR-C-010 **June 29, 2015**

In a joint review conducted by the OIGs for the prudential regulators (see the above summary of OIG Report No. 2015-SR-X-009, *Coordination of Responsibilities Among the Consumer Financial Protection Bureau and the Prudential Regulators—Limited Scope Review*), the OIGs identified opportunities for enhanced coordination, including an opportunity for the CFPB to develop a standard process for notifying the prudential regulators of federal consumer financial law violations by institutions with $10 billion or less in total assets.

We conducted a review to address the issue of written notifications to the prudential regulators. During our review, we were unable to determine the frequency with which the CFPB identified potential material violations and shared them with prudential regulators and whether the CFPB consistently acted in accordance with section 1026(d) of the Dodd-Frank Act. Further, because the CFPB did not track written notifications and recommendations, we were not able to assess whether the relevant prudential regulator responded within 60 days of the recommendation as required by the Dodd-Frank Act.

We recommended that the CFPB implement a policy that outlines the process for assessing the materiality of a violation, provides guidance on determining whether a written notification or

recommendation is necessary, and requires the tracking of written notifications and recommendations to the prudential regulators and the corresponding written responses received from them. The CFPB concurred with our recommendations.

Opportunities Exist to Enhance Management Controls Over the CFPB's Consumer Complaint Database

OIG Report No. 2015-FMIC-C-016 **September 10, 2015**

Our audit objective was to assess the effectiveness of the CFPB's controls over the accuracy and completeness of its public-facing Consumer Complaint Database.

We determined that the CFPB's Office of Consumer Response has implemented controls to monitor the accuracy of complaint data in the internal case management system, but it has not established separate management controls to ensure the accuracy of the Consumer Complaint Database. We also found that Consumer Response does not (1) review all company closing responses, including verifying whether the company-selected response is consistent with the definition, and (2) consistently publish untimely company closing responses in the Consumer Complaint Database. In addition, consumers are not consistently offered the opportunity to dispute untimely company responses. Finally, although the Consumer Complaint Database website asserts that complaint data are refreshed daily, we found that Consumer Response did not consistently notify the public when the database was not updated.

Because the DT Complaint Database plays a role in the daily update process, our findings should be considered in conjunction with the security control deficiencies associated with the DT Complaint Database that were identified in OIG Report No. 2015-IT-C-011, *Security Control Review of the CFPB's Data Team Complaint Database* (see summary below).

Our report includes recommendations designed to improve the CFPB's controls over the accuracy and completeness of the Consumer Complaint Database. The CFPB concurred with our recommendations.

Security Control Review of the CFPB's Data Team Complaint Database

OIG Report No. 2015-IT-C-011 **July 23, 2015**

Our audit objective was to evaluate the adequacy of selected security controls for protecting the CFPB's DT Complaint Database from unauthorized access, modification, destruction, or disclosure, as well as the system's compliance with FISMA and the information security policies, procedures, standards, and guidelines of the CFPB.

The DT Complaint Database supports the CFPB's Consumer Response System and is the source of consumer complaint information published on the CFPB's public website. While the CFPB had taken steps to secure the DT Complaint Database in accordance with FISMA, we identified several control deficiencies related to configuration management, access control, and audit logging and review.

Our report includes recommendations to strengthen controls for the DT Complaint Database. The CFPB concurred with our recommendations.

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

Report title	Type of report
The CFPB Is in Compliance With IPIA, as Amended	Audit
Coordination of Responsibilities Among the Consumer Financial Protection Bureau and the Prudential Regulators—Limited Scope Review	Evaluation
The CFPB Can Enhance Its Process for Notifying Prudential Regulators of Potential Material Violations	Evaluation
Security Control Review of the CFPB's Data Team Complaint Database	Audit
CFPB Headquarters Construction Costs Appear Reasonable and Controls Are Designed Appropriately	Audit
The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes	Evaluation
The CFPB Can Enhance Its Contract Management Processes and Related Controls	Audit
Opportunities Exist to Enhance Management Controls Over the CFPB's Consumer Complaint Database	Audit

Total number of audit reports: 5
Total number of inspection and evaluation reports: 3

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

Reports	Number of reports	Questioned costs	Unsupported costs
For which no management decision had been made by the commencement of the reporting period	0	$0	$0
That were issued during the reporting period	0	$0	$0
For which a management decision was made during the reporting period	0	$0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0	$0
For which no management decision had been made by the end of the reporting period	0	$0	$0
For which no management decision was made within six months of issuance	0	$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		
		Number	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	–	08/15	3	2
Security Control Review of the Consumer Financial Protection Bureau's Consumer Response System (nonpublic report)	03/13	9	9	–	09/15	9	–
Opportunities Exist to Enhance the CFPB's Policies, Procedures, and Monitoring Activities for Conferences	08/13	4	4	–	03/15	2	2
The CFPB Should Strengthen Internal Controls for Its Government Travel Card Program to Ensure Program Integrity	09/13	14	14	–	09/15	11	3
2013 Audit of the CFPB's Information Security Program	12/13	4	4	–	11/14	1	3
The CFPB Can Improve the Efficiency and Effectiveness of Its Supervisory Activities	03/14	12	12	–	07/15	11	1
The CFPB Has Established Effective GPRA Processes, but Opportunities Exist for Further Enhancement	06/14	3	3	–	08/15	2	1
Security Control Review of the CFPB's Cloud Computing–Based General Support System	07/14	4	4	–	–	–	4
The CFPB Complies With Section 1100G of the Dodd-Frank Act, but Opportunities Exist for the CFPB to Enhance Its Process	09/14	3	3	–	09/15	–	3
Audit of the CFPB's Acquisition and Contract Management of Select Cloud Computing Services	09/14	4	4	–	–	–	4
2014 Audit of the CFPB's Information Security Program	11/14	3	3	–	–	–	3
The CFPB Can Enhance Its Diversity and Inclusion Efforts	03/15	17	17	–	09/15	7	10

See note at end of table.

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

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Security Control Review of the CFPB's Tableau System	03/15	3	3	–	–	–	3
The CFPB Can Enhance Its Process for Notifying Prudential Regulators of Potential Material Violations	06/15	1	1	–	–	–	1
Security Control Review of the CFPB's Data Team Complaint Database	07/15	7	7	–	–	–	7
CFPB Headquarters Construction Costs Appear Reasonable and Controls Are Designed Appropriately	07/15	1	1	–	–	–	1
The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes	08/15	2	2	–	–	–	2
The CFPB Can Enhance Its Contract Management Processes and Related Controls	09/15	10	10	–	–	–	10
Opportunities Exist to Enhance Management Controls Over the CFPB's Consumer Complaint Database	09/15	8	8	–	–	–	8

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 Federal Deposit Insurance Act, as amended, 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), 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 complete any material loss or in-depth reviews during this reporting period.

Nonmaterial Loss Reviews

The Federal Deposit Insurance Act, as amended, 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.

Nonmaterial Losses Warranting an In-Depth Review

During this semiannual period, there were no failed state member banks with nonmaterial losses that warranted an in-depth review.

Table 9: Nonmaterial State Member Bank Failure During the Reporting Period

State member bank	Location	Asset size (millions)	DIF projected loss (millions)	Closure date	OIG summary of state's grounds for receivership	OIG determination
Premier Bank	Denver, Colorado	$26.8	$4.4	07/10/2015	Unsafe and unsound condition	Circumstances do not warrant an in-depth review

Investigations

The OIG's Office of Investigations conducts investigations of criminal, civil, and administrative wrongdoing by Board and CFPB employees, as well as investigations of alleged misconduct or criminal activity that affects the Board's or the CFPB's ability to effectively supervise and regulate the financial community. 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*.

During this period, the Office of Investigations met with other financial OIGs to discuss matters of mutual interest, joint investigative operations, joint training opportunities, and OIG hotline operations and processes. The office also met with officials at both the Board and the CFPB to discuss investigative operations and the investigative process.

Board of Governors of the Federal Reserve System

The Board is responsible for consolidated supervision of bank holding companies, including financial holding companies formed under the Gramm-Leach-Bliley Act. Under delegated authority from the Board, the Reserve Banks execute the day-to-day supervision of bank and financial holding companies, and the Board's Division of Banking Supervision and Regulation is responsible for overseeing the Reserve Banks' supervisory activities.

The Board is also responsible for supervising and regulating state-chartered banks that are members of the Federal Reserve System. Under delegated authority from the Board, the Reserve Banks execute the day-to-day supervision of state member banks,

and the Board's Division of Banking Supervision and Regulation is responsible for overseeing the Reserve Banks' supervisory activities.

Our office's investigations concerning bank holding companies and state member banks 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 obstructed the Board's ability to carry out its supervisory operations. Such activity may result in criminal violations, such as false statements or obstruction of a bank examination. Examples of investigations affecting the Board's ability to carry out its supervisory and regulatory responsibilities 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, plea agreements, or press releases.

Individual Pleaded Guilty to Wire Fraud in Connection With a Fictitious Document Purportedly From the Federal Reserve

During the reporting period, a former car dealership manager pleaded guilty in U.S. District Court to one count of wire fraud and one count of aiding and abetting the filing of a false individual income tax return.

The investigation determined that the defendant transmitted false loan application documents for the purpose of executing a scheme to defraud automotive financing companies. As part of the scheme, among other things, the defendant submitted loan applications that contained false representations, including a fake income letter purportedly from the "Federal Reserve Pension Fund." The defendant's fraudulent scheme resulted in total actual losses to the victimized car dealerships of $803,952 and intended total losses of $689,973. Intended losses are loss amounts of fraudulently obtained loans for which a default has not yet occurred, but which the dealerships will be responsible for repaying should a default occur on the part of the customers who purchased the cars.

This case was the result of a joint investigation by the Board-CFPB OIG; Internal Revenue Service-Criminal Investigation; the U.S.

Secret Service; and the U.S. Attorney's Office for the Northern District of Illinois, Eastern Division.

Former United Commercial Bank Chief Credit Officer Sentenced to Over Eight Years for Felony Fraud Conviction

During the reporting period, the former Chief Operating Officer and Chief Credit Officer for UCB of San Francisco, California, was sentenced by a U.S. District Judge to 97 months in prison and three years' supervised release and ordered to forfeit $348,000. UCB's bank holding company, UCBH Holdings Inc., is supervised by the Board.

This sentence followed a jury trial in U.S. District Court in which the defendant was found guilty on March 25, 2015, of one count each of conspiracy to commit false bank entries, reports, and transactions; false bank entries, reports, and transactions; conspiracy to commit securities fraud; securities fraud; falsifying corporate books and records; false statements to accountants; and circumventing internal accounting controls. These activities were carried out as part of a scheme to conspire with others within the bank to falsify key bank records to conceal millions of dollars in losses and to falsely inflate the bank's financial statements.

On November 6, 2009, UCB was closed and the FDIC was appointed as receiver. With over $10.9 billion in assets, UCB's failure was the ninth-largest failure of a bank insured by the FDIC since 2007; the estimated losses to the DIF were approximately $677 million. In addition, UCB accepted approximately $298 million in federal funds during the 2008 financial crisis, which were not repaid.

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

Former Bank CEO Pleads Guilty to Obstructing an Examination by the Board

During the reporting period, the former CEO and Chairman of Voyager Bank and the President and CEO of the bank's holding company, VFSC, pleaded guilty to obstructing an examination.

The investigation determined that examiners required VFSC to review the defendant's loans and submit documentation showing that the loans to the defendant had been reviewed by the VFSC board of directors and were consistent with existing bank policies. Examiners specifically required that the letter be presented to the VFSC board of directors and discussed at the next board meeting. The defendant received the letter, did not disclose its existence to the VFSC board, and prepared a response to Federal Reserve examiners on his own.

At the time of the examination, the defendant had four loans with VFSC, totaling more than $5 million. The defendant's response to examiners provided false and misleading information concerning his loans with the bank. He wrote the response as though it had been reviewed and approved by the VFSC board of directors and signed by its Chairman, when in fact it had not.

This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, the Federal Housing Finance Agency OIG, the FBI, and the U.S. Attorney's Office for the District of Minnesota.

Former Executives of Wilmington Trust Indicted for Conspiracy and False Statements

During the reporting period, four former executives of WTC, a state member bank supervised by the Board, were indicted for their respective roles in concealing from the Board, the SEC, and the public the total quantity of past-due loans on Wilmington Trust's books. The investigation revealed that WTC was required to report in its quarterly filings with both the SEC and the Board the quantity of its loans for which payment was past due for 90 days or more. Investors and banking regulators consider the 90-day number in evaluating the health of a bank's loan portfolio. The four former executives helped conceal the truth about the health of WTC's loan portfolio from the SEC, the bank's regulators, and the public.

Two defendants were previously indicted on May 6, 2015, on two counts of making false statements to an agency of the United States, related to the concealment from the market and the Federal Reserve of the total quantity of past-due loans on the bank's books during the months of October and November 2009.

This case was the result of a joint investigation by the Board-CFPB OIG, the Federal Bureau of Investigation (FBI), Internal Revenue Service-Criminal Investigation, the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the SEC, and the U.S. Attorney's Office for the District of Delaware.

Former D'Hanis State Bank President Pleads Guilty to Wire Fraud

During the reporting period, a former D'Hanis State Bank (DSB) President admitted that she filed fraudulent bank regulating reports that overestimated the bank's assets.

The former bank President pleaded guilty in U.S. District Court to one count of wire fraud in a superseding criminal information filed on June 5, 2015. The investigation revealed that from January 2012 until September 2014, the defendant prepared and filed false Consolidated Reports of Condition and Income with federal and state bank regulators on behalf of DSB that overstated the assets of DSB by approximately $830,000. In her plea, the defendant admitted that she e-mailed the false reports to a prospective buyer of DSB. The buyer relied on those false DSB Consolidated Reports of Condition and Income in its decision to purchase DSB.

The case was prosecuted by the Board-CFPB OIG, the FDIC OIG, the FBI, the U.S. Secret Service, and the U.S. Attorney's Office for the Western District of Texas.

Two Former Stearns Bank Officials Pleaded Guilty to Making False Bank Entries

During the reporting period, two former bank officials of Stearns Bank National Association of St. Cloud, Minnesota, pleaded guilty in U.S. District Court to one count of making false bank entries with intent to defraud. The plea follows an earlier criminal

information on July 30, 2015, in which the defendants—the former head and the former Operations Manager of the Stearns Bank Factoring Division—were charged with the same offense.

Both defendants were employed as officers, directors, agents, or employees in the Factoring Division of Stearns Bank, which is also the sole subsidiary of Stearns Financial Services Incorporated. They were also officers for Stearns Financial Services, which is a bank holding company regulated by the Board.

During this period, the defendants engaged in activities to cause Stearns Bank to purchase nonexistent receivables from two student loan companies. As part of the Factoring Division, the defendants used a computer program called FactorSoft, which allows bank factoring customers to submit their accounts receivable and have Stearns Bank buy these invoices at a discount.

The defendants submitted, or caused to be submitted, fraudulent invoices through the FactorSoft computer program so that the two student loan companies could receive bank payments from Stearns Bank. The defendants did not inform Stearns Bank directors, or other persons of authority at Stearns Bank, that they were making or causing these false entries to be made. Through these false entries, Stearns Bank provided significant funds to the two student loan companies without actual accounts receivable or collateral. Stearns Bank ultimately sold the portfolio of accounts receivable to another bank without that bank's knowledge of the fraudulent accounts receivable invoices for the two student loan companies. The total loss to the purchasing bank was approximately $13 million.

This case was investigated by the Board-CFPB OIG, the FDIC OIG, the FBI, SIGTARP, and the U.S. Attorney's Office for the District of Utah.

Former Onebanc Employee Sentenced in Money Laundering Scheme

During the reporting period, Matthew Daniel Sweet, former Onebanc Controller and Vice President, was sentenced to a year of probation and fined $1,000. Sweet pleaded guilty in January 2015 to one count of money laundering. One Financial Corporation is the bank holding company for Onebanc and is regulated by the Board.

The investigation revealed a scheme in which Sweet embezzled money from Onebanc and used it to pay his personal credit card bills. Four former One Financial Corporation executives and officers were indicted and are scheduled for trial in December 2015.

This case was a joint investigation by the Board-CFPB OIG, Internal Revenue Service-Criminal Investigation, the FBI, the FDIC OIG, SIGTARP, and the U.S. Attorney's Office for the Eastern District of Arkansas.

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the CFPB to implement and enforce "federal consumer financial law." The CFPB's five statutory objectives are (1) to provide consumers with critical information about financial transactions, (2) to protect consumers from unfair practices, (3) to identify and address outdated and unduly burdensome regulations, (4) to foster transparency and efficiency in consumer financial product and service markets and to facilitate access and innovation, and (5) to enforce federal consumer financial law without regard to the status of the person to promote fair competition.

In general, the CFPB supervises three types of regulated entities: (1) nondepository covered persons (including mortgage brokers, loan modification services, payday lenders, consumer reporting agencies, debt collectors, and private education lenders); (2) "very large" banks, thrifts, and credit unions (with total assets in excess of $10 billion); and (3) "other" banks, thrifts, and credit unions (with total assets of $10 billion or less).

Our office's investigations concerning the CFPB's supervisory and regulatory responsibilities typically involve allegations that company directors or officers provided falsified business data and financial records to the CFPB, lied to or misled examiners, or obstructed examinations in a manner that may have affected the CFPB's ability to carry out its supervisory and regulatory responsibilities over regulated entities. Such activity may result in criminal violations, such as false statements or obstruction of a bank examination. Examples of investigations affecting the CFPB's ability to carry out its supervisory and regulatory responsibilities 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, plea agreements, or press releases.

Former Owner of Mortgage Relief Assistance Businesses Pleaded Guilty to Mail Fraud and Aggravated Identity Theft

During the reporting period, the former owner of several illegitimate mortgage relief assistance businesses pleaded guilty in U.S. District Court to one count of mail fraud and two counts of aggravated identity theft. These counts stemmed from a scheme to defraud distressed homeowners facing foreclosure to pay advance fees of over $2 million to her business entities for purported mortgage relief services, including legal services, to save their homes from foreclosure.

The investigation revealed that the defendant devised, participated in, and executed a scheme to defraud distressed homeowners by falsely claiming to be a law firm or impersonating licensed attorneys, falsely promising consumers mortgage loan modifications that would allow them to avoid foreclosure or substantially reduce their mortgage payments or interest rates, falsely claiming that her services had a money-back guarantee, and not disclosing that she had been prohibited by a temporary restraining order and preliminary injunction from offering such services. The defendant committed perjury by making a false statement in a civil action brought by the CFPB and committed bankruptcy fraud by concealing her scheme through the filing of a material false declaration and statement in United States Bankruptcy Court for the Central District of California.

This case was the result of a joint investigation by the Board-CFPB OIG, the Federal Housing Finance Agency OIG, SIGTARP, and the U.S. Attorney's Office for the Central District of California.

Table 10: 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	63
Investigations opened during the reporting period	17
Investigations closed during the reporting period	23
Investigations open at end of the period	57
Investigative results for the reporting period	
Referred to prosecutor	10
Joint investigations	29
Referred to audit	0
Referred for administrative action	0
Oral and/or written reprimands	0
Terminations of employment	1
Arrests	9
Suspensions	0
Debarments	0
Indictments	9
Criminal informations	10
Convictions	8
Monetary recoveries	$0
Civil actions	$0
Criminal fines, restitution, and forfeiture	$348,000
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 can be reached by phone, e-mail, web form, fax, or 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 318 complaints.

The OIG continued to receive complaints from individuals seeking information about or wanting to file noncriminal consumer complaints regarding 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 Office of the Comptroller of the Currency's Customer Assistance Group or the CFPB Consumer Response team.

The OIG Hotline also continued to receive 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 or financial information of the recipient and that neither the Board nor the Reserve Banks endorse or have any involvement in them.

Table 11: Summary Statistics on Hotline Activities During the Reporting Period

Hotline complaints	Number
Complaints pending from previous reporting period	4
Complaints received during reporting period	318
Total complaints for reporting period	322
Complaints resolved during reporting period	320
Complaints pending	2

Legislative and Regulatory Review, Congressional and Media Activities, and CIGIE Participation

18
legislative items reviewed

4
regulatory items reviewed

89
responses to congressional members and staff

36
responses to media inquiries

2
outreach meetings with the media

Legislative and Regulatory Review

The Legal Services program serves as the independent legal counsel to the IG and the OIG staff. 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. 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 Inspector General Act of 1978, as amended, 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 18 legislative items and 4 regulatory items.

Congressional and Media Activities

The OIG communicates and coordinates with various congressional committees on issues of mutual interest. During the reporting period, we provided 89 responses to congressional members and staff concerning the Board and the CFPB. Additionally, the OIG responded to 36 media inquiries and conducted 2 outreach meetings with the media.

CIGIE Participation

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. 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 criminal investigative guidelines.

The Assistant Inspector General for Information Technology, as the Chair of the Information Technology Committee of the Federal Audit Executive Council, works with information technology audit staff throughout the IG community and reports to the CIGIE Audit Committee and Information Technology Committee on

common information technology audit issues. The Associate Inspector General for Legal Services and the Legal Services staff attorneys are members of CIGIE's Council of Counsels to the Inspector General.

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 Inspector General Act of 1978 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 our audit organization was completed in September 2014 by the Tennessee Valley Authority OIG. We received a peer review rating of *pass*. There were no report recommendations, nor were any recommendations pending from any previous peer reviews of our audit organization.
- The last peer review of our 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 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.

See our website for peer review reports of our organization.

Abbreviations

Board	Board of Governors of the Federal Reserve System
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
C-SCAPE	Consolidated Supervision Comparative Analysis, Planning and Execution System
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DSB	D'Hanis State Bank
DT	Data Team
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FISMA	Federal Information Security Management Act of 2002, as amended by the Federal Information Security Modernization Act of 2014
IFR	Independent Foreclosure Review
IG	Inspector General
IPIA	Improper Payments Information Act of 2002, as amended
OIG	Office of Inspector General
SEC	U.S. Securities and Exchange Commission
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
UCB	United Commercial Bank
VFSC	Voyager Financial Services Corporation
WTC	Wilmington Trust Company

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