

# Open Recommendations Made to the Board of Governors of the Federal Reserve System



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We oversee the Board of Governors of the Federal Reserve System (Board) by conducting audits, evaluations, and inspections of the Board's programs and operations and by making recommendations to improve economy, efficiency, and effectiveness.

Audits assess aspects of the economy, efficiency, and effectiveness of Board programs and operations and are conducted in accordance with the *Government Auditing Standards* established by the Comptroller General of the United States. Evaluations and inspections include program evaluations and legislatively mandated reviews of failed financial institutions supervised by the Board. Evaluations are generally focused on the effectiveness of specific programs or functions, and inspections are often narrowly focused on particular issues or topics and provide time-critical analyses. Evaluations and inspections are performed according to the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

Our audit, evaluation, and inspection reports explain why we conducted the review and the issues we found that should be corrected or improved, and they contain specific recommendations for agency corrective action. Table 1 shows the total number and status of recommendations we made to the Board for calendar years in which recommendations remain open, as of March 31, 2018.<sup>1</sup>

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<sup>1</sup> Some reports are restricted and not publicly available because they contain sensitive information.

**Table 1. Status of Recommendations for Calendar Years in Which Recommendations Remain Open, as of March 31, 2018**

Status	2011	2012	2013	2014	2015	2016	2017	2018
Recommendations	24	66	35	57	38	40	41	12
Open	2	1	1	5	7	23	38	12
Closed	22	65	34	52	31	17	3	0
Public recommendations	14	18	20	52	29	30	41	9
Open	2	0	1	5	2	14	38 <sup>a</sup>	9 <sup>a</sup>
Closed	12	18	19	47	27	16	3	0
Nonpublic recommendations	10	48	15	5	9	10	0	3
Open	0	1	0	0	5	9	0	3
Closed	10	47	15	5	4	1	0	0

a. Only the recommendations that have been open for 12 months are reflected in the accompanying list of open recommendations.

This document provides a list of publicly available report recommendations we made to the Board that have been open for more than 12 months as of March 31, 2018, and their status. The status designations and their definitions are as follows:

- **Agency concurrence**—The Board stated that it plans to implement the recommendation.
- **Agency nonconcurrence**—The Board stated that it does not concur with the recommendation. We continue to believe the recommendation should be implemented and are working with the Board to reach a resolution.
- **Agency partial concurrence**—The Board stated that it does not agree with part of the recommendation. We continue to believe the recommendation should be fully implemented and are working with the Board to reach a resolution.
- **Agency action**—The Board reported that it has begun taking steps to implement the recommendation.
- **Partial implementation**—The Board reported that it has completed actions to close part of the recommendation and is taking steps to close the remaining aspects.
- **Verification in progress**—The Board reported that it has completed actions to fully close the recommendation. We are verifying that the actions address the recommendation.

For inquiries about the list of open recommendations, please contact [oig.media@frb.gov](mailto:oig.media@frb.gov) or 202-973-5043.

## Publicly Available Board Recommendations Open for More Than 12 Months

Report title	Issuance date	Recommendation	Recommendation status
<a href="#">Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings</a> <a href="#">2011-30-SR-B</a>	06/13/2011	1. Update the Rulemaking Procedures Policy Statement and broadly disseminate it to all employees involved in rulemaking activities. We suggest that this document address the Board's philosophy and principles supporting its rulemaking activities and identify preferred practices.	Agency concurrence
		2. Consider establishing documentation standards for rulemaking economic analysis to help ensure reproducibility on an internal basis.	Agency concurrence
<a href="#">The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control</a> <a href="#">2013-AE-B-013</a>	09/05/2013	1. Designate responsible officials or an office to <ol style="list-style-type: none"> <li>develop and implement an agency-wide policy and process to more closely follow the spirit and intent of the Federal Managers' Financial Integrity Act of 1982.</li> <li>develop a training program to increase staff awareness about maintaining and monitoring administrative internal control.</li> </ol>	Agency action
<a href="#">Enforcement Actions and Professional Liability Claims Against Institution-Affiliated Parties and Individuals Associated with Failed Institutions</a> <a href="#">2014-SR-B-011</a>	07/25/2014	4. (To FDIC, FRB, and OCC) Consider the need to (1) increase their level of written EA coordination to meet the requirements of Federal Register policy statement 62 Fed. Reg. 7782, or (2) revise the policy statement to reflect Regulators' current level of coordination.	Agency concurrence
		6. (To FRB and OCC) Advise their regulated institutions about insurance policy exclusions.	Agency concurrence
<a href="#">Opportunities Exist to Enhance the Board's Oversight of Future Complex Enforcement Actions</a> <a href="#">2014-SR-B-015</a>	09/30/2014	1. Develop a framework to guide planning, vetting, and approving activities for large, complex enforcement strategies that may involve multiple institutions, multiple Board divisions, or multiple Reserve Banks. This framework could include planning and risk assessment activities such as <ol style="list-style-type: none"> <li>identifying key risks and possible risk-mitigating activities.</li> <li>assessing the feasibility of the intended corrective action.</li> <li>vetting possible alternatives.</li> <li>identifying documentation standards for the relevant initiative.</li> <li>defining performance measures as indicators of success and creating key interim milestones to monitor progress.</li> <li>assessing whether service-level agreements could be used to incentivize vendor performance consistent with expectations.</li> <li>identifying key assumptions.</li> <li>assessing whether the Board has the necessary skill sets and the resources available to oversee the intended corrective action.</li> <li>defining roles and responsibilities among the Board team overseeing the corrective action.</li> </ol>	Agency action

Report title	Issuance date	Recommendation	Recommendation status
		3. Assess the potential impact of data reliability issues as part of the complex enforcement strategies framework described in recommendation 1. Specifically, consider how data availability or reliability issues may impact the feasibility of the exercise or the consistency of its results. As part of this analysis, consider whether alternative enforcement strategies can be adopted that mitigate or eliminate these challenges. As appropriate, these strategies should be developed, vetted, and approved as part of the planning process.	Agency action
<a href="#">Opportunities Exist to Improve the Operational Efficiency and Effectiveness of the Board's Information Security Life Cycle</a>  <a href="#">2014-IT-B-021</a>	12/18/2014	2. Ensure that system owners develop and input the security documentation for all Board-owned and -operated systems into the automated workflow tool.	Verification in progress
<a href="#">Review of the Failure of Waccamaw Bank</a>  <a href="#">2015-SR-B-005</a>	03/26/2015	4. Review and update the Board's Guidelines for Appeals of Material Supervisory Determinations to establish a framework for Federal Reserve Bank Presidents and the Board to conduct appeals. In addition to any enhancements identified during the review, the framework should address <ul style="list-style-type: none"> <li>a. the standard of review for the appeal.</li> <li>b. whether the appellant has the burden of proof to demonstrate that the material supervisory determination should be reversed.</li> <li>c. whether the party assessing the higher-level appeal is limited to reviewing the prior factual record.</li> <li>d. whether the appellant has the right to comment on the evidence providing the basis for the initial material supervisory determination, even if confidential supervisory information protections apply.</li> </ul>	Agency action
		5. Ensure that the Board updates its appeals policy to prohibit supervisory team members from coordinating any aspect of the appeal process.	Agency action
<a href="#">The Board Should Strengthen Controls to Safeguard Embargoed Sensitive Economic Information Provided to News Organizations</a>  <a href="#">2016-MO-B-006</a>	04/15/2016	7. Conduct and document an analysis to determine how the classification and handling requirements established in the Board's Information Classification and Handling Standard and the FOMC's Program for Security of FOMC Information apply to documents during the embargo period and update relevant policies, as necessary.	Agency concurrence
<a href="#">2016 Audit of the Board's Information Security Program</a>  <a href="#">2016-IT-B-013</a>	11/10/2016	1. Work with the Chief Operating Officer to perform a risk assessment to determine which aspects of an insider threat program are applicable to other types of sensitive Board information and develop and implement an agency-wide insider threat strategy for sensitive but unclassified Board information, as appropriate.	Agency concurrence

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		4. Develop and implement an identity and access management plan that includes a risk-based determination on how multifactor authentication will be implemented for nonprivileged users of the Board's internal information technology resources.	Agency action
		6. Update the Board's Incident Handling Standard to include considerations for handling major incidents and work with appropriate parties to ensure that the escalation procedures outlined in the Federal Reserve System's incident handling guide for Board information is updated accordingly.	Agency action
		8. Develop and implement a plan to a. transition the Board's external network to a Trusted Internet Connections service provider. b. utilize the services offered by the U.S. Department of Homeland Security's EINSTEIN program, as appropriate.	Agency action
<a href="#">Opportunities Exist to Increase Employees' Willingness to Share Their Views About Large Financial Institution Supervision Activities</a>  <a href="#">2016-SR-B-014</a>	11/14/2016	1. Encourage the Division of Banking Supervision and Regulation and the Reserve Banks to enhance efforts to address the reasons that employees involved in large financial institution supervision choose not to share their views by a. reinforcing the importance of Board and Reserve Bank decisionmakers and leaders actively soliciting views from employees, explaining the rationale for their decisions to employees, and underscoring the importance of employees sharing their views. b. developing an approach to monitor the Federal Reserve System's progress toward addressing cultural elements that affect employees' willingness to share their views. c. assessing the current dynamics on large financial institution supervisory teams. For those teams that evidence employees' reticence to share their views, develop plans to improve team dynamics.	Agency action
		2. Encourage the Division of Banking Supervision and Regulation and the Reserve Banks to work with their human resources departments to a. ensure that performance and incentive compensation criteria for officers and team leaders responsible for large financial institution supervision encourage leadership behaviors and competencies that foster employee willingness to share views. b. hold Reserve Bank team leaders accountable to their team by requiring the rating official to gather input from all or a sampling of employees who work for the relevant leader as part of the performance management process. c. reinforce the importance of Division of Banking Supervision and Regulation and Reserve Bank leaders providing specific, ongoing, and actionable feedback to their employees during performance discussions. d. establish specific, readily accessible behavioral performance criteria for promotions by grade level or position group. e. explain to employees the individual development opportunities they need to address to achieve promotion. f. evaluate informal and formal awards and recognition programs and implement necessary improvements to (i) recognize employees who share their views constructively and effectively and (ii) reward employees, managers, and officers when they demonstrate behaviors and traits that lead to open communication, improved organizational health and culture, and increased willingness of employees to share their views.	Agency action

Report title	Issuance date	Recommendation	Recommendation status
		<p>3. Ensure that Federal Reserve System decisionmakers develop</p> <ul style="list-style-type: none"> <li>a. plans to communicate and evidence their receptiveness to input and feedback, including divergent views, and articulate the rationale for decisions regarding the supervision of large financial institutions, including decisions to take no action.</li> <li>b. a framework that clarifies the roles and responsibilities of decisionmakers and supervision employees during the Large Institution Supervision Coordinating Committee and large banking organization supervisory decisionmaking processes.</li> <li>c. plans to improve communication, information sharing, and trust between Board officials and employees and the Reserve Bank supervisory teams.</li> </ul>	Agency action
		<p>4. Encourage the Reserve Banks with responsibility for large financial institution supervision to analyze whether the team's current floor plans, physical space configuration, and collaboration tools foster positive team dynamics, collaboration, and the sharing of information.</p>	Agency action
		<p>6. Encourage the Reserve Banks to work with their human resources departments to establish consistent onboarding practices for large financial institution supervision employees that are tailored to new employees' needs and backgrounds, include a team-specific knowledge transfer process, and incorporate formal mentoring to help new employees integrate into the Reserve Banks' supervision activities.</p>	Agency action
		<p>7. Encourage the Reserve Banks to have officers responsible for supervision and managers on large financial institution supervision teams consider measures to foster more frequent interaction among supervision employees outside the chain of command, to build trust within teams and across the supervision program more broadly.</p>	Agency action
		<p>8. Evaluate whether Federal Reserve System management and leadership development programs reinforce the importance of the leadership behaviors and processes outlined in Findings 1 and 2. Encourage the developers of the programs to modify the content based on the results of that evaluation, if necessary. Ensure that Reserve Bank and Board leaders in the supervision program participate in those updated programs, as necessary.</p>	Agency action
		<p>9. Encourage the Reserve Banks to work with their human resources departments to</p> <ul style="list-style-type: none"> <li>a. consider the appropriate balance between leadership, management, and team-building skills and technical supervision skills as key competencies when filling supervisory leadership positions.</li> <li>b. develop methods to better identify when managers are inhibiting employees' willingness to share views or are exhibiting behaviors that limit open communication and detract from positive team dynamics.</li> <li>c. define the circumstances, if any, in which managers who detract from team dynamics or inhibit employees' willingness to share views should be reassigned or counseled.</li> </ul>	Agency action

Report title	Issuance date	Recommendation	Recommendation status
		10. Define the situations in which Federal Reserve System committees and other relevant Federal Reserve System decisionmakers should be made aware of close calls on material supervisory issues and debates that arise during the annual assessment and rating process, and provide an opportunity for individuals who disagree with their Reserve Bank's proposed decisions, findings, or ratings to share their divergent view with the appropriate decisionmaking or advisory body.	Agency action
<a href="#">The Board Can Improve Documentation of Office of Foreign Assets Control Examinations</a> <a href="#">2017-SR-B-003</a>	03/15/2017	1. Assess the value of issuing guidance to formalize and clarify minimum documentation requirements specific to Office of Foreign Assets Control examinations and conduct examiner training based on workpaper standards.	Agency concurrence
		2. Assess the value of collecting Office of Foreign Assets Control examination information in the National Examination Database. If the Board determines that it needs to continue collecting the data in the National Examination Database, the Division of Supervision and Regulation should <ol style="list-style-type: none"> <li>provide additional guidance for when to mark yes in the National Examination Database that Office of Foreign Assets Control compliance has been reviewed.</li> <li>assess whether the National Examination Database form should be modified so that users of the data can more effectively determine the frequency and extent of coverage of Office of Foreign Assets Control compliance examinations.</li> </ol>	Agency concurrence
<a href="#">The Board Can Improve the Effectiveness of Continuous Monitoring as a Supervisory Tool</a> <a href="#">2017-SR-B-005</a>	03/29/2017	1. Develop guidance and training on how to conduct continuous monitoring that <ol style="list-style-type: none"> <li>reinforces the importance of analyzing the materials received to determine possible implications associated with the analysis, including developing conclusions that may affect safety and soundness.</li> <li>requires Federal Reserve Banks to periodically rationalize continuous monitoring activities, including meetings and document reviews.</li> <li>clarifies expectations for how to document, label, and store the outputs of routine continuous monitoring activities.</li> <li>discusses and implements continuous monitoring best practices across the Federal Reserve System.</li> </ol>	Agency action
		2. Improve the storage and retrieval of continuous monitoring documentation by <ol style="list-style-type: none"> <li>clarifying the use of existing systems so that users understand where to store and access continuous monitoring documentation.</li> <li>ensuring that the existing systems' areas of supervisory focus are flexible and system search terms meet the needs of individuals conducting continuous monitoring.</li> </ol>	Agency action