Evaluation Report
2019-SR-C-005
March 25, 2019

Bureau of Consumer Financial Protection

The Bureau Can Improve Its Risk Assessment Framework for Prioritizing and Scheduling Examination Activities

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

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Executive Summary, 2019-SR-C-005, March 25, 2019

The Bureau Can Improve Its Risk Assessment Framework for Prioritizing and Scheduling Examination Activities

Findings

We identified opportunities for the Bureau of Consumer Financial Protection (Bureau) to improve its risk assessment framework for prioritizing and scheduling examinations. Specifically, the Division of Supervision, Enforcement and Fair Lending's (SEFL) approach for assigning a key risk score to individual institution product lines is not transparent for some Bureau employees involved in the scoring process; these employees would benefit from additional training and guidance on that process. We also found that SEFL can improve its preliminary research on supervised institutions. Finally, we found that SEFL can improve the internal reporting of changes to the examination schedule.

Recommendations

Our report contains recommendations designed to improve the Bureau's risk assessment framework for prioritizing and scheduling examination activities. We recommend that SEFL require annual training and implement guidance to provide clarity on its process for scoring a key risk. Further, we recommend that SEFL take steps to improve preliminary research on supervised institutions. Finally, we recommend that SEFL develop and implement an internal report that documents the rationale for any changes to the examination schedule.

In its response to our draft report, the Bureau concurs with our recommendations and outlines actions that will be taken to address our recommendations. For our recommendation related to improving SEFL's preliminary research on prioritized institutions, we have reviewed documentation associated with the actions taken by the Bureau, and we believe that the agency has taken sufficient action to close this recommendation. We will follow up to ensure that the remaining recommendations are fully addressed.

Purpose

We conducted an evaluation of the effectiveness of the Bureau's risk assessment framework for prioritizing examination activities. Our objectives were (1) to assess the effectiveness of SEFL's risk assessment framework, including the identification, analysis, and prioritization of supervised institutions for examination, and (2) to review each region's implementation of the results of the prioritization process through examination scheduling.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides the Bureau with the authority to supervise depository institutions with more than $10 billion in total assets and their affiliates, and certain nondepository institutions. The Bureau's oversight authorities cover thousands of institutions, many of which offer more than one product line that is subject to Bureau oversight. Because the number of institutions and product lines under the Bureau's supervisory authority significantly exceeds the agency's capacity to conduct its oversight activities, the Bureau seeks to prioritize its examination activities based on an annual assessment of risk posed to consumers. In doing so, the Bureau uses quantitative and qualitative data while seeking a consistent supervisory approach across the depository and nondepository institutions.

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

Recommendations, 2019-SR-C-005, March 25, 2019

The Bureau Can Improve Its Risk Assessment Framework for Prioritizing and Scheduling Examination Activities

Finding 1: The FMI Scoring Process Can Be Improved

Number	Recommendation	Responsible office
1	Develop training on the FMI scoring process that includes a detailed explanation of the methodology used to determine desktop FMI scores and require employees participating in that process to receive this training annually.	Division of Supervision, Enforcement and Fair Lending
2	Develop guidance that clarifies SEFL's procedures for determining the final FMI score when an agreement cannot be reached.	Division of Supervision, Enforcement and Fair Lending

Finding 2: SEFL Can Improve Its Research on Prioritized Institutions

Number	Recommendation	Responsible office
3	Increase the lead time for preliminary research on supervised institutions when verifying whether an institution is subject to the Bureau's supervision and the location of the operations to be examined.	Division of Supervision, Enforcement and Fair Lending

Finding 3: SEFL Can Improve Internal Reporting of Changes to the Examination Schedule

Number	Recommendation	Responsible office
4	Develop and routinely update a cumulative tracking report that documents the rationale for any changes to the examination schedule to assist in tracking such changes or identifying trends.	Division of Supervision, Enforcement and Fair Lending

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

MEMORANDUM

DATE: March 25, 2019

TO: David Bleicken
Acting Associate Director, Division of Supervision, Enforcement and Fair Lending
Bureau of Consumer Financial Protection

FROM: Timothy Rogers Timothy Rogers
Acting Associate Inspector General for Audits and Evaluations
Office of Audits and Evaluations

SUBJECT: OIG Report 2019-SR-C-005: *The Bureau Can Improve Its Risk Assessment Framework for Prioritizing and Scheduling Examination Activities*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the effectiveness of the Bureau's risk assessment framework for prioritizing examination activities and to review how the regions implement the results of the prioritization process through examination scheduling.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that have been or will be taken to address our recommendations. For our recommendation related to improving the Division of Supervision, Enforcement and Fair Lending's (SEFL) preliminary research on prioritized institutions, we have reviewed documentation associated with the actions taken by the Bureau, and we believe that the agency has taken sufficient action to close this recommendation. We will follow up to ensure that the remaining recommendations are fully addressed. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from the SEFL team during this evaluation. Please contact me if you would like to discuss this report or any related issues.

cc: Eric Blankenstein, Policy Associate Director, Division of Supervision, Enforcement and Fair Lending
Paul Sanford, Assistant Director, Office of Supervision Examinations
Peggy Twohig, Assistant Director, Office of Supervision Policy
Tim Siwy, Deputy Assistant Director, Office of Supervision Examinations
Alice Hrdy, Principal Deputy Assistant Director, Office of Supervision Policy
Ece Onat, Supervisory Program Manager, Reporting, Analytics, Monitoring, Prioritization and Scheduling

Elizabeth Reilly, Chief Financial Officer
Dana James, Deputy Chief Financial Officer
Lauren Hassouni, Finance and Policy Analyst, Office of the Chief Financial Officer
Carlos Villa, Finance and Policy Analyst, Office of the Chief Financial Officer

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Introduction

Objectives

We conducted an evaluation of the effectiveness of the Bureau of Consumer Financial Protection's (Bureau) risk assessment framework for prioritizing the Division of Supervision, Enforcement and Fair Lending's (SEFL) examination activities. Our objectives were (1) to assess the effectiveness of SEFL's risk assessment framework, including the identification, analysis, and prioritization of supervised institutions for examination, and (2) to review each region's implementation of the results of the prioritization process through examination scheduling. Appendix A describes our scope and methodology in greater detail.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established the Bureau to regulate the offering and provision of consumer financial products or services under federal consumer financial laws. The Dodd-Frank Act provides the Bureau with the authority to supervise depository institutions and their affiliates with more than $10 billion in total assets and certain nondepository institutions. Among nondepository institutions, the Bureau has the authority to supervise consumer mortgage, private education lending, and payday lending institutions as well as the authority to publish a rule defining which participants in certain markets are large enough to fall under its supervisory jurisdiction—often referred to as the Larger Participant Rule.[1]

The Dodd-Frank Act requires the Bureau to take a risk-based approach to its supervision program.[2] As of September 2018, the Bureau had the authority to supervise 170 depository institutions and their affiliates, along with potentially thousands of nondepository institutions. Many of these institutions offer more than one product line that is subject to the Bureau's supervisory authority. Because the number of institutions and product lines under the Bureau's supervisory authority exceeds the agency's capacity to conduct its oversight activities, the Bureau seeks to prioritize its examination activities based on an annual assessment of risk.

The Bureau's *Supervision and Examination Manual*[3] lists three main principles that guide the agency's supervision process. According to the manual,

- A focus on customers—The Bureau will focus on risks to customers when it evaluates the policies and practices of a financial institution.

[1] 12 C.F.R. part 1090. In addition, the Dodd-Frank Act provides the Bureau with supervisory authority over institutions whose conduct the Bureau has reasonable cause to determine, by order, after notice and a reasonable opportunity to respond, "poses risks to consumers with regard to the offering or provision of consumer financial products or services." 12 U.S.C. § 5514(a)(1)(C).

[2] 12 U.S.C. § 5514(b)(2).

[3] The Bureau's *Supervision and Examination Manual* was last updated in August 2018.

- A data-driven approach—The Bureau's supervision function will rest on the analysis of available data on the activities of the institutions it supervises, the markets in which these institutions operate, and risks to consumers posed by the institutions' activities in these markets.

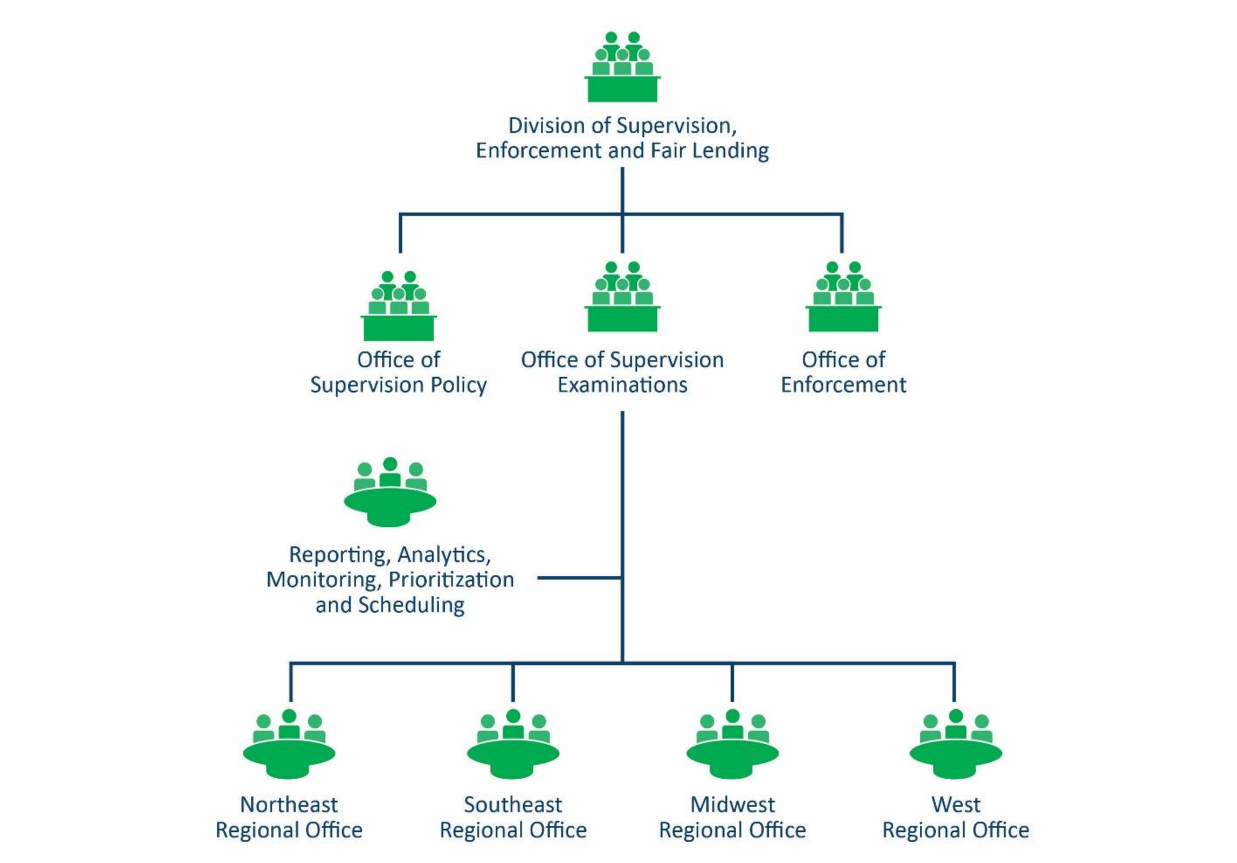
- Consistency across institutions—The Bureau supervises both depository institutions that offer a wide variety of consumer financial products and services and nondepository consumer financial services companies that offer one or more such products. To fulfill its statutory mandate to consistently enforce federal consumer financial law, the Bureau will seek to apply consistent standards in its supervision of both types of institutions, to the extent possible.

These three principles apply to the Bureau's annual risk assessment. The Bureau uses quantitative and qualitative data to prioritize examination activities based on an assessment of the risk posed to consumers while seeking a consistent supervisory approach across the depository and nondepository institutions.

The Division of Supervision, Enforcement and Fair Lending

Within the Bureau, SEFL is responsible for ensuring compliance with federal consumer financial laws by supervising market participants, typically through examination and monitoring activities, and initiating enforcement actions when appropriate. There are three offices within SEFL: the Office of Supervision Examinations (OSE), the Office of Supervision Policy (OSP), and the Office of Enforcement. Although all three offices are involved in the examination prioritization process, OSE and OSP are primarily responsible for executing the process, and OSE is responsible for implementing the results. Figure 1 illustrates SEFL's organizational structure as of January 2019.

Figure 1. SEFL Organization Structure



Source. OIG compilation based on a review of the Bureau's organization charts.

Note. This organization chart is not comprehensive and includes only details relevant to this evaluation. In January 2019, the Director announced a reorganization that involved shifting the Office of Fair Lending and Equal Opportunity (OFLEO) from SEFL to the Office of the Director. According to a Bureau official, certain OFLEO staff will remain with SEFL and will continue to be involved in the supervision prioritization process, will consult on specific enforcement and supervisory matters, and will remain in close coordination with SEFL leadership. SEFL's name will not be changed as part of this reorganization.

OSE is responsible for assessing its supervised institutions' compliance with federal consumer financial laws. Examiners within OSE are assigned to the Bureau's regional offices in New York (Northeast Region); Washington, DC (Southeast Region); Chicago (Midwest Region); and San Francisco (West Region). Each regional office schedules and conducts examinations in accordance with the results of SEFL's examination prioritization process.

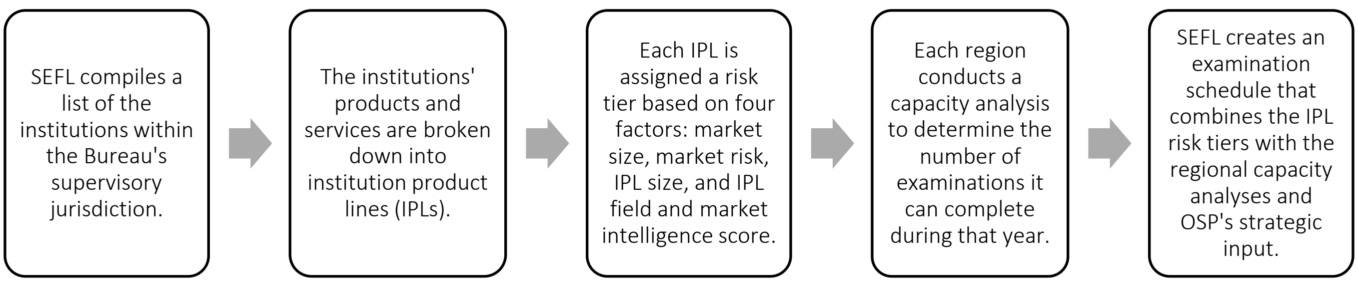
Within OSE, the Reporting, Analytics, Monitoring, Prioritization and Scheduling (RAMPS) team conducts the annual prioritization process, coordinating extensively with the regional offices; OSP; the Office of Enforcement; the Division of Research, Markets and Regulations (RMR); and Consumer Response. In addition to leading this process, RAMPS tracks significant changes to the supervision examination calendar and disseminates those updates on a monthly basis.

OSP develops SEFL's supervision strategy and provides subject-matter expertise support to OSE's examination employees in connection with the various consumer financial product and service lines subject to Bureau supervision. In providing this expertise, OSP seeks to ensure that SEFL takes a consistent supervisory approach across depository and nondepository institutions as well as a consistent approach across all four regions. OSP also plays a key role in the annual prioritization process by drafting memorandums that outline SEFL's overall supervisory strategy during a particular year.

SEFL's Risk Assessment, Prioritization, and Scheduling Framework

SEFL's development of its risk assessment framework and prioritization process began in 2011, shortly after the agency began operations. In February 2014, the Bureau released a decision memorandum documenting the Director's approval of the supervision prioritization approach. Figure 2 depicts a high-level overview of SEFL's supervisory risk assessment, prioritization, and examination scheduling process.

Figure 2. Risk Assessment, Prioritization, and Examination Scheduling Process



Source. OIG compilation based on a review of the Bureau's documents.

The Risk Assessment and Prioritization Process

In contrast with the four federal prudential regulators, which focus on safety and soundness risks to institutions,[4] the Bureau's approach to prioritizing its examination activities focuses on risks to consumers. In executing this approach, SEFL determines the risk posed by each product line offered by a supervised institution. This approach is not a comprehensive assessment of all the institution's products and services. A large depository institution might have several product lines, such as auto lending, credit cards, deposit accounts, international money transfers, mortgage origination, and mortgage servicing. SEFL may, for example, determine that the risk posed by an institution's credit card product line differs substantially from the risk posed by its deposit accounts product line, and it therefore assigns a risk tier specific to each product line.

SEFL refers to each product line at a supervised institution as an institution product line (IPL). IPLs serve as the unit of analysis for the risk assessment and prioritization framework. SEFL determines the risk posed by each IPL based on a combined assessment of two market-level factors and two IPL-level factors, with greater emphasis given to the IPL-level factors. The risk assessment results in a score from 1 to 5, with 5 indicating the highest risk level. SEFL considers the following factors in determining a score:

[4] The four federal prudential regulators are the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Credit Union Administration. In coordination with the state banking regulators, these regulators oversee their respective depository institutions for safety and soundness.

- **Market size score—**SEFL scores each market's potential effect on consumers based on its size relative to the overall consumer finance marketplace. The metrics used to quantify size vary and may include, for example, the total dollar value of the market or the number of consumers in the market.

- **Market risk score—**On a qualitative basis, SEFL scores each product market's overall risk to consumers based on factors that may vary by market, such as rising fraud indicators or market innovations. Several stakeholders throughout the Bureau, including OSP and RMR, provide input on market risk.

- **IPL size score**—SEFL factors in the market share of an institution within its product market, which generally corresponds to the number of consumers affected. Because larger institutions with a dominant market presence have the ability to affect more consumers, SEFL generally prioritizes large institutions over small institutions.

- **Field and market intelligence (FMI) score**—SEFL assigns each IPL an FMI score based on several qualitative and quantitative factors. The FMI score, the most heavily weighted of the four components, reflects an IPL's risk relative to other IPLs within the same product market. This score takes into account a broad range of factors that bear on the likelihood of consumer harm, including the strength of compliance management systems, findings from prior examinations, metrics from public reports, and the number and severity of any consumer complaints the Bureau has received.

  To generate a final FMI score that incorporates both quantitative and qualitative factors, RAMPS provides the regional offices, OSP, and the Office of Enforcement with what it calls a *desktop FMI score*, which is based on quantitative analysis from relevant databases such as the Consumer Complaint Database and other data and information sources. The regional offices, OSP, and the Office of Enforcement may provide feedback on the desktop FMI score, generally based on qualitative information from supervisory experience or other regional touchpoints with the IPL. Other Bureau stakeholders, such as RMR, may also contribute to the proposed FMI score. Finally, RAMPS coordinates discussions to reconcile any differences between the desktop FMI scores and feedback provided by other offices to arrive at a final FMI score for each IPL.

After SEFL scores each IPL, RAMPS distributes the list of risk-rated IPLs to the regional offices. Every year, SEFL officials convene at an examination scheduling kickoff meeting to discuss the results of the prioritization process and other strategic input from OSP to make a preliminary decision on which IPLs to examine. During this discussion, SEFL also considers information in the regions' supervisory plans for depository institutions and certain nondepository institutions. Supervisory plans help examiners determine the timing and form of supervisory work products and often include a consumer compliance rating assigned to the institution.

Examination Scheduling

The results of the risk assessment and prioritization process feed into OSE's examination scheduling process. In addition, each regional office conducts an annual capacity analysis to determine the number of examinations it expects can be completed given its staffing resources.[5] The regions establish scheduling blocks that historically have been 8 weeks in length. Based on the annual capacity analysis, Regional Directors have discretion to determine the number of examinations their region can complete on an annual basis as well as the start and end dates for the blocks within their regions. According to Bureau officials, block scheduling allows examiners to better prepare for examinations and to better plan leave around the examinations.

Each region sends its proposed examination schedule to RAMPS, which creates a draft national examination schedule. RAMPS then gives each SEFL office an opportunity to provide feedback on the schedule. Once the Director of the Bureau approves the final national examination schedule, the regions must create a record for each examination in the Bureau's supervisory system of record, including assigning each examination an identification number, by the end of the calendar year.

Any significant changes to the final examination schedule must be approved by the SEFL Assistant Directors responsible for OSE and OSP. RAMPS tracks changes to the examination schedule based on updates to the Bureau's supervisory system of record and informs SEFL stakeholders of the approved changes to the examination calendar via a monthly supervisory email to internal stakeholders.

[5] According to an OSE official, SEFL has historically scheduled about 160 to 200 examination events per year.

Finding 1: The FMI Scoring Process Can Be Improved

We found that SEFL's methodology to determine an FMI score for each IPL is not transparent for all officials and employees participating in the scoring process. Some Bureau regional employees indicated that they did not know how RAMPS arrives at desktop FMI scores and how differences between desktop and regional FMI scores are reconciled and resolved. Accurate FMI scores are critical to the effectiveness of SEFL's risk assessment framework for prioritizing examination activities because the FMI score is the most heavily weighted component of the final risk tier calculation for each IPL. A lack of clarity in the FMI scoring process may lead to inconsistent FMI scores because regional employees do not fully understand the basis for desktop FMI scores and how to apply numerical FMI scores to their IPLs. The reconciliation process for resolving differences in IPL scores may take longer or yield inconsistent results when employees do not have a common understanding of how to apply FMI scores or how any differences should be reconciled and resolved.

We identified multiple contributing causes to the lack of clarity in the FMI scoring process, including training that does not adequately explain how RAMPS calculates desktop FMI scores. Further, SEFL does not have guidance that clarifies SEFL's procedures for determining the final FMI score when parties are unable to reach a consensus.

The FMI Scoring Process Is Not Transparent for Some Employees

Through interviews, we learned that employees participating in the FMI scoring process have an inconsistent understanding of the process. Notably, several regional employees indicated that they do not have insight into how RAMPS determines desktop FMI scores for each IPL. For example, one regional employee wanted to know more about how consumer complaints contribute to the FMI scoring process. In addition, some regional employees stated that the desktop FMI scores serve as an initial focal point for their region's FMI scores, while others stated that the regional FMI scores are determined independently from the desktop FMI scores. Insufficient training on the FMI scoring process may lead to inconsistent outcomes when employees apply their own approach to assigning regional FMI scores.

Interviewees also indicated that the process for reconciling differing desktop and regional FMI scores lacks clarity. If there are discrepancies between desktop and regional FMI scores, the parties seek to reconcile and reach a consensus on the final FMI score. Regional employees indicated that they often have a higher level of confidence in the regional FMI scores assigned to certain IPLs, typically those of depository institutions, because they are more familiar with those institutions due to onsite supervision and quarterly monitoring.

Regional employees expressed frustration with situations in which the region's confidence in a particular FMI score for a supervised institution did not appear to be adequately considered in the FMI score reconciliation process. We learned that the desktop FMI scores do not necessarily reflect the results of prior regional feedback and instead tend to be tied to other quantitative metrics, so it is through FMI feedback that the final FMI score incorporates regional supervisory experience. Regional employees also stated that they are not sure which office determines the final FMI score in situations in which the reconciling parties cannot agree.

Multiple Causes Contribute to Concerns About the Clarity and Accuracy of the FMI Scoring Process

We found multiple contributing causes to the concerns interviewees raised about the lack of clarity and accuracy in the FMI scoring process, including insufficient training and insufficient guidance governing FMI score reconciliation.

Insufficient Training

Regional employees indicated that although RAMPS provides optional annual training on the FMI scoring process, the level of detail in that training is insufficient. Regional employees stated that RAMPS should err on the side of overcommunicating and providing additional details on the FMI scoring methodology, especially when explaining how RAMPS calculates the desktop FMI scores. A Bureau official acknowledged that requiring annual training on the FMI scoring process would be helpful.

Insufficient Guidance on FMI Reconciliation

Regional employees indicated that procedures for determining the final FMI score are not always clear. When parties cannot reach a consensus on the final FMI score, there is no guidance specifying how that difference of opinion is resolved, including which office or management official makes the final decision. Through interviews, we heard that in practice, either one party convinces the other to agree to its proposed FMI score, or the parties agree to disagree, in which case regional employees are unclear on who made the final determination. Bureau employees indicated that guidance clarifying SEFL's procedures for determining final FMI scores when parties cannot reach a consensus would be helpful.

Recommendations

We recommend that the Acting Associate Director of SEFL

1. Develop training on the FMI scoring process that includes a detailed explanation of the methodology used to determine desktop FMI scores and require employees participating in that process to receive this training annually.

2. Develop guidance that clarifies SEFL's procedures for determining the final FMI score when an agreement cannot be reached.

Management's Response

In its response to our draft report, the Bureau concurs with our recommendations. In response to recommendation 1, the agency notes that SEFL will develop training on the FMI scoring process, including a detailed explanation of the methodology used to determine FMI scores, and the employees participating in the FMI scoring process will be required to take the training annually. In response to recommendation 2, the Bureau notes that SEFL will develop guidance that clarifies the procedures for determining the final FMI score when an agreement cannot be reached.

OIG Comment

The actions described by the Bureau appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Finding 2: SEFL Can Improve Its Research on Prioritized Institutions

We found that the Bureau can improve its preliminary research on supervised institutions. According to our review of documentation and conversations with senior officials, SEFL has inadvertently scheduled examinations at institutions that are outside its supervisory jurisdiction because it did not have sufficient information about those institutions. We identified multiple instances of this occurring during our review period, the 2017 and 2018 supervisory planning cycles, and understand that it also occurred in prior planning cycles.

After scheduling certain examinations but prior to conducting those activities, SEFL learned that some institutions do not satisfy title 12, part 1090, of the *Code of Federal Regulations*. This section of the Larger Participant Rule defines which larger nondepository participants in certain markets are subject to the Bureau's supervision. The regulation also describes the test in each market that the Bureau must use to determine which institutions are larger participants in those markets.

In addition, SEFL inadvertently scheduled some examinations in the incorrect region because it had not verified the location of the institution's relevant operations. We understand that the regional offices verify the location of the institution's relevant operations just before beginning an examination. SEFL sometimes schedules examinations in the incorrect region because of a lack of information and insufficient research performed before scheduling those examinations.

Regional officials and analysts indicated that it is sometimes challenging to determine whether an institution is a larger participant in particular markets, most notably in the debt collection market. Similarly, the location of an institution's operations may not be publicly available information. As a result, the regional offices can become aware of this information through a preexamination questionnaire, which SEFL sends to the institution after it prioritizes and schedules an institution for examination.

This limited preliminary research on supervised institutions can result in abrupt, late-stage cancellations and potentially lead to an inefficient use of examiner resources. Although RAMPS performs an initial test at the beginning of the prioritization process to determine whether an institution satisfies the Larger Participant Rule, additional verification may be necessary to ensure that an institution is subject to the Bureau's supervisory jurisdiction.

SEFL Has Inadvertently Scheduled Examinations at Institutions Not Subject to Its Supervisory Jurisdiction

During our review period, the Bureau prioritized and scheduled examinations of debt collectors only to discover that the institutions did not satisfy the Larger Participant Rule and thus were not subject to the Bureau's supervisory jurisdiction. In the two instances we identified, the Bureau canceled the examination prior to its start date. According to interviewees, assessing whether debt collectors, in particular, satisfy the Larger Participant Rule is challenging because the collection of certain types of debt, such as medical debt, does not contribute toward meeting the Larger Participant Rule threshold, and information on the types of debt collected by an institution is often not publicly available.

As a result, in the instances mentioned above, the Bureau only became aware of its lack of supervisory jurisdiction after the institution completed a preexamination questionnaire. Our review of scheduling documentation corroborates multiple instances of SEFL canceling scheduled examinations after discovering the institution did not satisfy the Larger Participant Rule. As a result, regional offices had to reassign examiners to a different examination or request that they perform other responsibilities.

SEFL Has Inadvertently Scheduled Examinations in the Incorrect Region

We also learned through our interviews with senior officials and analysts that the Bureau previously scheduled several examinations in the incorrect region. These instances required the regional offices to relocate examiners across the country or to reassign them to alternative work.

For example, during interviews, we heard of instances in which a region learned that an institution's operations were in a different region just prior to initiating an examination. As a result, examiners traveled across the country to complete the scheduled examination. If the information on the location of the institution's operations had been available sooner, the Bureau may have saved examiner time and travel resources.

Similarly, we heard that SEFL scheduled an examination based on the location of an institution's headquarters but later learned that the relevant operations were located in a different region. Although the region still performed the examination, identifying these situations earlier in the prioritization process could avoid the inefficient use of limited examination resources. Multiple regional employees expressed similar concerns.

We believe that additional research earlier in the prioritization process to determine the location of an institution's relevant operations will result in fewer late-stage changes to the examination schedule and a more effective use of examination resources.

Management Actions Taken

According to a Bureau official, SEFL sends information request letters to certain institutions that may meet the definition of a larger participant prior to initiating the onsite portion of an examination to confirm that those institutions are subject to the Bureau's supervisory jurisdiction. For example, a debt collector's response to an information request letter will allow SEFL to assess whether it is subject to the Larger Participant Rule. These letters typically request a breakdown of the debt collector's annual receipts, including medical debt, for each of the last 5 years. A Bureau official noted the importance of limiting the reporting burden placed on institutions by using this request letter approach only when absolutely necessary. Further, officials stated that SEFL has sent these information request letters with increased lead time before scheduled examinations during the most recent examination cycle to avoid abrupt, late-stage cancellations. Our review of each of these information request letters sent from

November 2015 to October 2018 confirmed that additional lead time before scheduled examinations had been provided during the most recent examination cycle.

Recommendation

We recommend that the Acting Associate Director of SEFL

3. Increase the lead time for preliminary research on supervised institutions when verifying whether an institution is subject to the Bureau's supervision and the location of the operations to be examined.

Management's Response

In its response to our draft report, the Bureau concurs with our recommendation and states that SEFL has addressed this recommendation by sending information request letters to institutions with increased lead time before scheduled examinations to avoid abrupt, late-stage cancellations.

OIG Comment

We have reviewed documentation associated with the actions taken by the Bureau, and we closed this recommendation based on the actions taken.

Finding 3: SEFL Can Improve Internal Reporting of Changes to the Examination Schedule

We found that the Bureau does not maintain a continually updated report that tracks the changes made to the examination schedule or the rationale for those changes. Through benchmarking against another federal regulator responsible for consumer protection, we identified a more robust method of internal reporting that incorporates the rationale for changes made to the examination schedule. Such reporting could result in improved insight for SEFL through a better understanding of the causes for examination schedule changes.

An Enhanced Process for Making Changes to the Examination Schedule Could Result in Improved Reports for Management

According to SEFL policy, significant changes to the scope or timing of an examination and examination cancellations must be approved by the SEFL Assistant Directors. RAMPS documents any adjustments to the examination schedule in a monthly supervisory email. However, we found that RAMPS does not maintain a cumulative tracking report of schedule changes and does not include the rationale for the changes made to the examination schedule.

Through benchmarking, we learned that the Board of Governors of the Federal Reserve System (Board)[6] has a more robust process for implementing and documenting changes to its consumer financial protection examination plans. This process includes a cumulative tracking report and periodic updates to leadership to explain changes to the examination schedule and the reasons behind those changes. Similar to the Bureau, if examiners want to adjust the examination schedule, they must submit a request for approval. However, in contrast to the Bureau, the Board documents the reasons for examination change requests in a cumulative tracking report and periodically presents this information to Board leadership.

The Bureau does not maintain a continually updated report that tracks changes made to the examination schedule or includes the reason for those changes, and instead notes examination changes in a monthly supervisory email. Such a report could result in improved insight on the number of examinations that SEFL cancels or adds and the rationale for those changes. This insight may help identify trends in examination schedule changes to inform leaders' decisionmaking during the next prioritization and scheduling cycle.

[6] The Federal Reserve System has examination and enforcement authority for federal consumer financial laws and regulations for insured depository institutions with $10 billion or less that are state member banks and not affiliates of covered institutions, as well as for conducting Community Reinvestment Act examinations for all state member banks regardless of size and evaluating compliance with certain other federal consumer financial protection laws not specifically under the Bureau's authority.

Recommendation

We recommend that the Acting Associate Director of SEFL

4. Develop and routinely update a cumulative tracking report that documents the rationale for any changes to the examination schedule to assist in tracking such changes or identifying trends.

Management's Response

In its response to our draft report, the Bureau concurs with our recommendation. The agency notes that SEFL will develop and routinely update a cumulative tracking report that documents the rationale for any changes to the examination schedule to assist in tracking such changes or identifying trends.

OIG Comment

The actions described by the Bureau appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.

Appendix A: Scope and Methodology

The scope of our evaluation includes the Bureau's risk assessment, prioritization, and examination scheduling process for the 2017 and 2018 examination cycles. Our review includes an in-depth assessment of RAMPS's execution of the risk assessment framework, including the identification, analysis, and prioritization of supervised institutions, as well as the role of OSP, RMR, the Office of Enforcement, and the Office of Fair Lending and Equal Opportunity (OFLEO), prior to the office's reorganization, in the prioritization process. We also reviewed each region's implementation of the prioritization results through examination scheduling.

To accomplish our objectives, we identified and reviewed relevant criteria, including relevant Dodd-Frank Act sections describing the Bureau's supervisory authorities and responsibilities (12 U.S.C. §§ 5511(b)(4), 5514(a)(2), 5514(b)(2)); the Larger Participant Rule (12 C.F.R. part 1090); the Bureau's *Supervision and Examination Manual*; the SEFL Integration 3.3 Memo; *Standard Operating Guidance 2015-06*; and other relevant criteria.

We also interviewed officials and employees within OSE, OSP, RMR, OFLEO, the Office of Enforcement, and each regional office.

We reviewed documentation, including relevant policies and procedures and documentation related to RAMPS, to determine whether SEFL identifies the universe of supervised institutions in accordance with policies and procedures. In addition, we reviewed other relevant documentation, such as the sources of data and the spreadsheets used to identify the universe of supervised institutions for the 2017 and 2018 examination cycles. We reviewed strategy memorandums and meeting minutes to understand how SEFL's supervision strategy affects the prioritization process. Further, we compared completed examination activities to scheduled examination activities for the 2017 examination cycle. In addition, we held a benchmarking discussion with Board officials engaged in similar consumer financial protection activities.

We conducted our fieldwork from April 2018 through October 2018. We performed our evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

Appendix B: Management's Response

Consumer Financial Protection Bureau

1700 G Street NW, Washington, D.C. 20552

March 15, 2019

Mr. Michael VanHuysen
Acting Associate Inspector General for Audits and Evaluations
Board of Governors for the Federal Reserve System
20th Street and Constitution Avenue Northwest

Dear Mr. VanHuysen,

Thank you for the opportunity to review and comment on the Office of Inspector General's report *The Bureau Can Improve Its Risk Assessment Framework for Prioritizing and Scheduling Examination Activities*.

The Bureau appreciates the OIG's review and agrees with the recommendations for improving practices related to prioritizing and scheduling examination activities. As noted in the report, the Bureau has already addressed one recommendation is committed to addressing the others.

Thank you again for your review and the opportunity to provide comments on this report.

Sincerely,

David Bleicken
Acting Associate Director
Division of Supervision, Enforcement, and Fair Lending

consumerfinance.gov

Responses to Specific Recommendations

1. SEFL will develop training on the FMI scoring process which will include a detailed explanation of the methodology used to determine desktop FMI scores, and the employees participating in the FMI scoring process will be required to take the training annually

2. SEFL will develop guidance that clarifies the procedures that are used for determining the final FMI score when an agreement cannot be reached.

3. As acknowledged in the report, SEFL agreed with recommendation and has addressed it by sending the information request letters with increased lead time before scheduled examinations to avoid abrupt, late-stage cancellations.

4. SEFL will develop and routinely update a cumulative tracking report that documents the rationale for any changes to the examination schedule to assist in tracking such changes or identifying trends.

Abbreviations

Board	Board of Governors of the Federal Reserve System
Bureau	Bureau of Consumer Financial Protection
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FMI	field and market intelligence
IPL	institution product line
OFLEO	Office of Fair Lending and Equal Opportunity
OIG	Office of Inspector General
OSE	Office of Supervision Examinations
OSP	Office of Supervision Policy
RAMPS	Reporting, Analytics, Monitoring, Prioritization and Scheduling
RMR	Division of Research, Markets and Regulations
SEFL	Division of Supervision, Enforcement and Fair Lending

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