

Board of Governors of the Federal Reserve System

The Board Can Enhance Certain Aspects of Its Enforcement Action Monitoring Practices



Office of Inspector General

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



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Executive Summary, 2020-SR-B-006, March 18, 2020

The Board Can Enhance Certain Aspects of Its Enforcement Action Monitoring Practices

Finding

We found that the Federal Reserve Banks in our sample have implemented some effective practices for monitoring enforcement actions; however, we identified opportunities for the Board of Governors of the Federal Reserve System to enhance certain aspects of these practices.

Specifically, we found that the Reserve Banks in our sample use different information systems for monitoring enforcement actions against institutions in the community banking organization (CBO) portfolio. We learned that the Board currently has an initiative underway to develop a common technology platform for supervisory activities across the Federal Reserve System for institutions with less than \$100 billion in total assets, including CBOs. We believe that implementing a common platform may result in more consistency and enhanced transparency into the Reserve Bank monitoring practices for this portfolio. Further, we believe that a common platform that includes CBO portfolio reporting capabilities could help the Board's oversight efforts by streamlining the process to view portfolio-level information on enforcement actions.

We also identified certain instances of Reserve Bank staff not posting supervised institutions' progress reports describing their enforcement action remediation efforts to the required system of record. Although the Reserve Banks in our sample were able to locate or provide a rationale for the missing progress reports, we believe that Reserve Banks should be consistently posting progress reports or documentation of the decision to waive progress reports to the required system of record. Doing so would facilitate retrieval of this information, enhance transparency, and support the Board's oversight efforts.

Recommendation

Our report contains a recommendation designed to enhance the effectiveness of the Board's enforcement action monitoring practices. In its response to our draft report, the Board concurs with our recommendation and outlines actions to address the recommendation. We will follow up to ensure that the recommendation is fully addressed.

Purpose

We conducted this evaluation to assess the effectiveness of the Board's and the Reserve Banks' enforcement action monitoring practices. This evaluation focused on enforcement actions against supervised financial institutions within the CBO and the large and foreign banking organization portfolios. Specifically, our scope included specific types of formal and informal enforcement actions that address safety and soundness or Bank Secrecy Act/Anti-Money Laundering matters.

Background

The Board delegates to each Reserve Bank the authority to supervise certain financial institutions within its District, with oversight by the Board's Division of Supervision and Regulation. If the Board or a Reserve Bank identifies significant concerns through the supervisory process or other means, supervision staff can use various enforcement tools to compel the institution's management to address the issues. Each Reserve Bank is responsible for monitoring compliance with all enforcement actions and recommending termination or modification of the actions within its District's purview.



Office of Inspector General

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

Recommendations, 2020-SR-B-006, March 18, 2020

The Board Can Enhance Certain Aspects of Its Enforcement Action Monitoring Practices

Finding: Reserve Banks Use Different Systems to Support Their Enforcement Action Monitoring Efforts for the CBO Portfolio

Number	Recommendation	Responsible office
1	Ensure that System staff responsible for developing the common technology platform survey Reserve Bank and Board stakeholders to gather their user requirements to support enforcement action monitoring efforts for institutions with less than \$100 billion in total assets.	Division of Supervision and Regulation



Office of Inspector General

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

MEMORANDUM

DATE: March 18, 2020

TO: Michael S. Gibson
Director, Division of Supervision and Regulation
Board of Governors of the Federal Reserve System

FROM: Michael VanHuysen 
Assistant Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2020-SR-B-006: *The Board Can Enhance Certain Aspects of Its Enforcement Action Monitoring Practices*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the effectiveness of the Board of Governors of the Federal Reserve System's and the Federal Reserve Banks' practices for monitoring open enforcement actions against supervised financial institutions.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendation and outline actions that have been or will be taken to address our recommendation. We have included your response as appendix B to our report.

We appreciate the cooperation we received from the Board and the Reserve Banks in our sample during our evaluation. Please contact me if you would like to discuss this report or any related issues.

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Introduction

Objective

Our objective for this evaluation was to assess the effectiveness of the Board of Governors of the Federal Reserve System's and the Federal Reserve Banks' practices for monitoring open enforcement actions against supervised financial institutions.¹ This evaluation focused on the Board's and the Reserve Banks' monitoring efforts related to formal and informal enforcement actions within the community banking organization (CBO) and large and foreign banking organization (LFBO) portfolios. Specifically, our scope included certain types of formal and informal enforcement actions that address safety and soundness or Bank Secrecy Act/Anti-Money Laundering (BSA/AML) matters.² Details on our scope and methodology are in appendix A.

Background

The Board plays a significant role in supervising and regulating U.S. financial institutions. In this oversight role, the Board seeks to ensure that the institutions under its authority operate in a safe and sound manner and comply with all applicable federal laws and regulations.³ Within the Federal Reserve System, which encompasses the Board and the Reserve Banks, the Board delegates to each Reserve Bank the authority to supervise certain financial institutions, such as CBOs and LFBOs, located within the Reserve Bank's District. The Board's Division of Supervision and Regulation (S&R) oversees the Reserve Banks' execution of these responsibilities and issues supervisory policy and guidance to assist the Reserve Banks in executing that authority.

S&R groups its oversight activities into multiple supervisory portfolios that are generally based on the total asset size of the institution. S&R's portfolio sections are responsible for overseeing each of these portfolios.

- The CBO portfolio includes domestic institutions with less than \$10 billion in total consolidated assets.
- The regional banking organization (RBO) portfolio includes domestic institutions with \$10 billion to \$100 billion in total consolidated assets.

¹ We conducted a separate evaluation assessing the efficiency and effectiveness of the Board's and the Reserve Banks' processes and practices for issuing and terminating enforcement actions: Office of Inspector General, *The Board Can Enhance Its Internal Enforcement Action Issuance and Termination Processes by Clarifying the Processes, Addressing Inefficiencies, and Improving Transparency*, [OIG Report 2019-SR-B-013](#), September 25, 2019.

² Our scope did not address enforcement actions pertaining to consumer compliance matters.

³ By law, the Board is responsible for supervising and regulating the following segments of the financial industry: state member banks; bank holding companies; savings and loan holding companies; nonbank subsidiaries of bank holding companies and of savings and loan holding companies; Edge Act and agreement corporations; branches and agencies of foreign banking organizations operating in the United States and their parent banks; financial market utilities; and officers, directors, employees, and certain other categories of individuals associated with the above banks, companies, and organizations.

- The LFBO portfolio includes domestic institutions with more than \$100 billion in total consolidated assets and foreign institutions, regardless of size, that are supervised by the Board but not subject to Large Institution Supervision Coordinating Committee portfolio supervision.
- The Large Institution Supervision Coordinating Committee portfolio includes the largest and most systemically important domestic and foreign financial institutions supervised by the Board.

Under S&R's oversight, Reserve Bank examiners supervise these institutions through onsite examinations and inspections and offsite monitoring. After completing an examination or inspection, Reserve Bank examiners complete a report of examination or inspection that summarizes the findings, ratings, and required actions.⁴ If the Board or a Reserve Bank identifies significant concerns through the supervisory process or other means, supervision staff can use various enforcement tools to compel the institution's management to address the issues.

Enforcement Tools

Enforcement tools consist of formal and informal actions. By law, the Board may issue formal enforcement actions against supervised financial institutions for violations of laws, rules, or regulations; unsafe or unsound practices; violations of final orders; and violations of conditions imposed in writing. The Board may compel an institution to take, or refrain from taking, specific actions through formal enforcement actions, which can be enforced in court or through additional enforcement actions. Further, an institution's failure to implement corrective measures required by an enforcement action may result in additional enforcement actions. Formal enforcement actions are required by law to be made public; the Board publishes the issuance or termination of these actions through press releases and posts the actions to its public website.

Alternatively, the Board may use a variety of informal enforcement tools to address certain types of issues, such as deficiencies that are relatively small in number and have a less-immediate effect on the safety and soundness of an institution. These informal actions are not legally enforceable in court. Further, the Board does not post informal enforcement actions to its website or otherwise make these actions publicly available.

Enforcement Action Monitoring

The Board or a Reserve Bank will typically issue an enforcement action as a result of an onsite bank examination or a bank holding company inspection.⁵ The Board or a Reserve Bank may also issue an

⁴ For full-scope examinations, examiners assign state member banks a composite rating and component ratings addressing the bank's capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS). For bank holding companies, examiners assign a composite rating and ratings addressing the company's risk management, financial condition, and potential effect on affiliated depository institutions (RFI/C(D)). Ratings range from 1 to 5, with 1 indicating the least regulatory concern and 5 indicating the greatest concern. In February 2019, the Board announced a new rating system for the supervision of large financial institutions. This rating system, referred to as the *LFI rating system*, is composed of three components: capital planning and positions, liquidity risk management and positions, and governance and controls. Each component is rated on a four-point nonnumeric scale: *broadly meets expectations*; *conditionally meets expectations*; *deficient-1*; and *deficient-2*.

⁵ Informal enforcement actions issued by the Reserve Banks against certain institutions do not require Board approval.

enforcement action when it becomes aware of a problem at an institution that warrants immediate attention and corrective action.⁶

Enforcement actions generally require an institution to develop and implement acceptable plans, policies, and programs to remedy the safety and soundness or compliance deficiencies that resulted in the action. An enforcement action typically provides the dates for an institution to submit the relevant plans, policies, and other documentation to the Reserve Bank. Following the issuance of a formal or informal enforcement action, the relevant Reserve Bank uses its examination authority to monitor an institution's compliance with the action. Each Reserve Bank is responsible for monitoring all enforcement actions and recommending termination or modification of the actions within its District's purview.

Reserve Banks monitor compliance by reviewing submissions from an institution, such as progress reports describing remediation efforts; performing examination or inspection activities; and completing offsite analyses. Based on our interviews and review of Board documentation, we understand that Board analysts communicate periodically with Reserve Bank staff regarding institutions under the Reserve Bank's purview; Board analysts' activities may include providing input on the scope of examinations or inspections, participating in examination vetting discussions, and reviewing examination reports. Once a Reserve Bank determines that an institution has demonstrated "substantial sustained compliance," the Reserve Bank recommends termination of the action.⁷ Typically, a Reserve Bank arrives at this conclusion as a result of its onsite examination or inspection activities.

Reserve Bank Guidance for Monitoring Enforcement Actions

To aid in accomplishing their monitoring responsibilities, the Reserve Banks in our sample—the Federal Reserve Bank of Atlanta (FRB Atlanta), the Federal Reserve Bank of Kansas City (FRB Kansas City), and the Federal Reserve Bank of New York (FRB New York)—have developed policies and procedures that include guidance related to monitoring enforcement actions. For example,

- FRB Atlanta has issued standards and procedures that address the expectations for enforcement action monitoring for each of the business lines within its Supervision, Regulation, and Credit Division (SRC).⁸ For example, FRB Atlanta has issued *Enforcement Actions Standards and Procedures*, *Enforcement Administrative Standards and Procedures*, and *Large Financial Institution Supervision Standards Manual*.
- FRB Kansas City has issued guidance documents, including *Formal Action Ongoing Monitoring Procedures* and *Informal Action Ongoing Monitoring Procedures*, for its Applications and

⁶ The Federal Reserve may also commence a formal investigation to determine whether an enforcement action is appropriate when the information needed to evaluate an institution's conduct cannot be readily obtained through the normal examination process.

⁷ Under the standards for terminating an enforcement action that requires remedial action, an institution must show at least substantial sustained compliance with the corrective actions required by the enforcement action, among other factors. Reserve Bank staff assess whether an institution has met this "substantial sustained compliance" standard on a case-by-case basis, depending on the specific facts relating to the institution's compliance record.

⁸ FRB Atlanta's SRC contains various business lines, such as the Community Bank Supervision Group, the Anti-Money Laundering Risk Team, and the Large Bank Supervision Group.

Enforcement Department and its Examinations and Inspections Department. These documents describe the expectations for monitoring enforcement actions.

- FRB New York has issued procedures, such as *Supervision Group Procedures—Enforcement Actions* and *Enforcement Analyst Handbook—Regional, Community, & Foreign Banking Organizations*, which include instructions for monitoring enforcement actions.

These Reserve Bank policies and procedures outline expectations for monitoring enforcement actions, documenting monitoring activities, and communicating with institutions under enforcement actions.

Reserve Bank Practices for Monitoring Enforcement Actions

FRB Atlanta, FRB Kansas City, and FRB New York have also implemented specific practices for monitoring enforcement actions to determine when an institution has satisfied the terms of an action.

- FRB Atlanta describes its approach to monitoring enforcement actions as decentralized, whereby personnel in each respective SRC business line monitor and assess compliance levels with enforcement actions for institutions in their supervisory portfolios. The central points of contact (CPCs), portfolio directors, or case managers in the Reserve Bank's various business lines oversee examinations, conduct surveillance, and monitor their assigned institutions' compliance with enforcement actions. They review progress reports that an institution submits on a periodic basis, usually quarterly, and determine whether an institution has addressed the enforcement action provisions or is making substantial progress toward complying. For enforcement actions against small bank holding companies or savings and loan holding companies with total assets under \$1 billion, Enforcement Team examiners monitor compliance by reviewing the quarterly progress reports submitted by institutions.⁹
- FRB Kansas City assigns CPCs from its Applications and Enforcement Department to monitor formal enforcement actions and CPCs from its Examinations and Inspections Department to monitor informal enforcement actions. To support the Reserve Bank's monitoring efforts, the CPCs must maintain ongoing knowledge of their assigned institutions and complete their supervisory responsibilities in a timely manner. Their significant ongoing monitoring responsibilities include participating in examination or inspection activities, reviewing institutions' replies to Reserve Bank correspondence, reviewing progress updates, and preparing follow-up correspondence.
- FRB New York's Supervision Group is responsible for monitoring an institution's required submissions to determine whether the institution is meeting the supervisory expectations in complying with the enforcement action. In the Regional, Community, and Foreign Institutions Function, FRB New York has dedicated personnel who monitor enforcement actions. In the Large and Foreign Banking Organization Function, dedicated BSA/AML risk specialists or members of the supervisory team monitor enforcement actions, depending on the subject matter of the action. Personnel from both functions perform activities, such as assessing an institution's compliance with the enforcement action's provisions, documenting those assessments in the respective databases, and coordinating with examination staff regarding areas of focus for examinations and inspections.

⁹ Examiners-in-charge also evaluate enforcement action compliance for these institutions when conducting offsite reviews and document the compliance levels in reports and workpapers.



Commendable Actions: The Reserve Banks in Our Sample Have Implemented Some Effective Practices for Monitoring Enforcement Actions

We found that the Reserve Banks in our sample have implemented some effective practices to aid in monitoring enforcement actions. For example, we learned that FRB Atlanta and FRB Kansas City often assign experienced staff to monitor enforcement actions, and FRB New York uses dedicated enforcement analysts to conduct monitoring activities for the Regional, Community, and Foreign Institutions Function. In our conversations with Reserve Bank interviewees, we learned of certain benefits of their respective Reserve Bank's approach:

- An FRB Atlanta official described the personnel who conduct enforcement action monitoring as seasoned examiners who have a lot of experience and understand the requirements for evaluating an institution's compliance with an enforcement action. Further, an FRB Atlanta interviewee noted that their Reserve Bank's decentralized approach works well because the personnel in the business lines are closest to the institutions and in the best position to monitor enforcement actions and assess whether the institutions are addressing the issues.
- An FRB Kansas City official noted that their Reserve Bank management often selects commissioned senior examiners to monitor enforcement actions because of their prior experience with enforcement actions and in supervising troubled institutions.¹⁰ This official added that FRB Kansas City staff possess a wide spectrum of enforcement knowledge. Another FRB Kansas City official described the Reserve Bank's practice of assigning an institution's CPC to monitor the institution's enforcement action as a best practice because the CPCs are very knowledgeable and regularly communicate with the supervised institutions.
- FRB New York interviewees shared positive feedback about having dedicated enforcement analysts for enforcement action monitoring for the Regional, Community, and Foreign Institutions Function. For example, an FRB New York interviewee noted that having a dedicated enforcement team is beneficial because the team has a holistic view of enforcement actions and provides support to the supervision teams by reviewing enforcement action documentation.

We also learned that the Reserve Banks in our sample are taking steps to further enhance their monitoring practices. For example, FRB Atlanta and FRB Kansas City interviewees indicated that their Reserve Banks are taking measures, such as cross-training and succession planning, to prepare for potential higher volumes of enforcement actions. An FRB Atlanta official noted that applications and

¹⁰ As defined in section 225.71 of the Board's Regulation Y, a state member bank or holding company is in troubled condition if it (1) has a composite rating of 4 or 5, (2) is subject to a cease and desist order or formal written agreement that requires action to improve the institution's financial condition, or (3) is informed in writing by the Board or the Reserve Bank that it is in troubled condition.

enforcement action activities are often countercyclical, so they are cross-training enforcement and applications staff to ensure that they have sufficient staff with expertise in both areas in the event of a change in the economic climate.¹¹ An FRB Kansas City official noted that their Reserve Bank's succession planning includes keeping two part-time employees within the enforcement group who are capable of stepping into full-time roles in the event of a financial downturn. The official added that FRB Kansas City has staff with enforcement experience who could supplement existing resources in the event of increased volumes of enforcement actions.

In addition, FRB New York interviewees indicated that their Reserve Bank is researching and has begun piloting technology solutions that may allow for more-efficient reviews of large volumes of narrative information within the supervised institutions' progress report submissions. An FRB New York interviewee noted that leveraging technology to assist with conducting an initial scan of the large volumes of data would be helpful.

¹¹ Financial institutions submit applications to the System for approval to undertake various transactions, such as mergers and acquisitions, and to engage in new activities.



Finding: Reserve Banks Use Different Systems to Support Their Enforcement Action Monitoring Efforts for the CBO Portfolio

The Reserve Banks in our sample use different information systems for monitoring enforcement actions against institutions in the CBO portfolio. The Board's *Supervision Function Strategic Plan 2014–18* contains a goal to implement technology and data strategies that support the future of supervision and describes associated success factors. For example, the strategic plan notes that certain platforms should support more standard and seamless business processes to eliminate local, one-off tools. We identified two key reasons for the Reserve Banks' use of different systems for monitoring enforcement actions within the CBO portfolio. First, we did not find any Board guidance that describes the applications that Reserve Bank staff should use to monitor enforcement actions against institutions in the CBO portfolio. Second, the Board has not implemented a common technology platform with the necessary functionality for tracking and monitoring enforcement actions for institutions in the CBO portfolio. We learned that the Board currently has an initiative underway to develop a common platform for supervisory activities across the Federal Reserve System for institutions with less than \$100 billion in total assets, including institutions in the CBO portfolio. We believe that implementing such a platform that includes capabilities for tracking and monitoring enforcement actions against CBOs may result in more consistency and enhanced transparency into the monitoring practices within the CBO portfolio across the Reserve Banks. Further, we believe that a common platform that includes CBO-level reporting capabilities could benefit the Board in its oversight efforts by streamlining the process necessary to generate such information.

The Reserve Banks in Our Sample Use Different Systems to Track and Monitor Enforcement Actions Pertaining to CBOs

The Board's *Supervision Function Strategic Plan 2014–18* contains a goal to implement technology and data strategies that support the future of supervision and describes associated success factors.¹² For example, the plan identifies as a success factor having common System technology tools build on the core foundational platforms, namely the Consolidated Supervision, Comparative Analysis, Planning and Execution (C-SCAPE) system and INSite. C-SCAPE is the primary tool to support supervision of large financial institutions, including LFBOs.¹³ INSite is a national technology platform used to support

¹² S&R released *Supervision Function Strategic Direction* in January 2019. The document lists efficient technology platforms to support portfolios as a success measure for achieving simple and efficient supervisory functions.

¹³ This tool also supports the supervision of institutions in the Large Institution Supervision Coordinating Committee and financial market utilities portfolios.

supervision of CBOs.¹⁴ The strategic plan notes that these platforms should support more standard and seamless business processes to eliminate local, one-off tools. In addition, standardizing supervision business processes across Districts and providing transparency into both process and outcomes is another success factor in the strategic plan.

We found that the three Reserve Banks in our sample use different systems to support their tracking and monitoring of enforcement actions against institutions in the CBO portfolio. For example, among other systems, FRB Atlanta uses internally developed databases—the Supervisory Actions Management Database and the CBO Provision Tracking Database—to track and monitor these enforcement actions. An FRB Atlanta interviewee also informed us that the Reserve Bank has created several different applications over the past few years. FRB Kansas City and FRB New York primarily use System applications to support their monitoring efforts. Specifically, FRB New York uses the National Examination Issues Tracking Database (iTrack), and FRB Kansas City uses INSite. Interviewees shared their perspectives on iTrack and INSite.¹⁵

- Interviewees from all three Reserve Banks expressed frustrations with iTrack. For example, an FRB New York interviewee noted that the application is not intuitive, does not update in real time, and may be challenging for staff to use. The interviewee added that they believed that the Reserve Bank uses iTrack to monitor enforcement actions because the Board required the Reserve Bank to do so. An FRB Atlanta official noted that the Reserve Bank implemented proprietary databases after finding iTrack to be difficult to navigate and not user friendly. The interviewee added that iTrack has other limitations, such as the inability to insert attachments within the database, and could not serve the Reserve Bank’s needs for tracking enforcement actions. Further, an FRB Kansas City interviewee noted that iTrack contains flaws and that several changes and improvements would be necessary for it to be used to monitor enforcement actions Systemwide.
- FRB Kansas City interviewees shared their perspectives on INSite. For example, an FRB Kansas City official noted that INSite was designed to house all supervisory information within one system. Other FRB Kansas City interviewees noted that INSite allows users to locate documentation about a specific institution in one easy-to-use portal. However, an FRB Kansas City interviewee noted that INSite is not set up to document assessments of an institution’s compliance with an enforcement action.
- In addition, a Reserve Bank interviewee noted that Reserve Banks are creating local solutions in silos, and staff from different Reserve Banks contact each other to share one-off technology ideas pertaining to enforcement action monitoring.

We attribute the Reserve Banks’ use of different systems for tracking and monitoring enforcement actions within the CBO portfolio to the Board’s (1) not issuing guidance that describes the applications that Reserve Bank staff should use to track and monitor these actions and (2) not implementing a common platform with the necessary functionality for tracking and monitoring enforcement actions for institutions in the CBO portfolio.

¹⁴ INSite also supports the supervision of regional banking organizations.

¹⁵ iTrack, part of the System’s National Examination Data application, is the national database for tracking examination and inspection issues, including Matters Requiring Attention and Matters Requiring Immediate Attention.

The Board Has Not Issued Guidance Describing the Applications to Be Used for Monitoring Enforcement Actions Against CBOs

Although we found that the Board has issued guidance describing the applications that Reserve Bank staff should use to monitor enforcement actions for certain types of institutions as well as Matters Requiring Attention (MRAs) and Matters Requiring Immediate Attention (MRIAs), we did not find any Board guidance that describes the applications that Reserve Bank staff should use for monitoring enforcement actions against institutions in the CBO portfolio.¹⁶ For example:

- In an August 2012 internal guidance document, the Board specifies that supervision staff should enter and track provisions in C-SCAPE for all formal and informal enforcement actions against certain institutions, such as LFBOs.¹⁷ This guidance notes that C-SCAPE enables supervisory staff to manage and track each issue throughout its life cycle.
- In a November 2012 internal guidance document, the Board notes that the iTrack system was implemented Systemwide in April 2010 to establish a national database for tracking examination and inspection issues. The document specifies that Reserve Bank staff should use iTrack to enter MRAs and MRIAs for all institutions other than those institutions in the portfolios specified in the August 2012 internal guidance. This guidance does not address monitoring enforcement action provisions.

In July 2014, the Board issued internal guidance that announced the implementation of INSite as the core technology platform to support common supervisory tools for all CBOs, RBOs, and RBO savings and loan holding companies.¹⁸ This guidance, however, does not address the expectations for monitoring enforcement actions for these institutions, and interviewees also indicated that there is no guidance pertaining to this matter. For example, a Reserve Bank interviewee noted that the Board's November 2012 internal guidance mandated the use of iTrack for MRAs and MRIAs, but the interviewee was not aware of any policy detailing expectations for tracking and monitoring enforcement actions. An S&R official noted that the Board has not issued guidance requiring Reserve Banks to use a specific application for monitoring enforcement actions for the CBO portfolio. This official explained that at one point, the Board made an effort to require the Reserve Banks to track enforcement actions within one application, but the Reserve Banks determined that the structural configuration of that particular application did not suit their needs.

¹⁶ *Commercial Bank Examination Manual* defines MRAs as matters that the Federal Reserve expects a banking organization to address over a reasonable period of time, and defines MRIAs as matters that the Federal Reserve requires a banking organization to address immediately. MRAs and MRIAs differ from enforcement actions.

¹⁷ This guidance also pertains to institutions in the Large Institution Supervision Coordinating Committee and financial market utilities portfolios but does not pertain to CBOs.

¹⁸ This internal guidance also notes that the Board expects Reserve Banks to use INSite platform tools, as they become available, for safety and soundness and consumer compliance supervisory activities associated with financial institutions in these portfolios.

The Board Has Not Implemented a Common Technology Platform With the Necessary Functionality for Monitoring Enforcement Actions Against CBOs

Many interviewees indicated that there is no common system for monitoring enforcement actions for the CBO portfolio. Some interviewees noted that they are currently using INSite for this purpose, while others are using iTrack; however, interviewees indicated that neither system has the necessary functionality for tracking and monitoring enforcement actions for CBOs. However, an S&R official informed us that supervisory staff should not be using iTrack for monitoring enforcement action provisions. An S&R interviewee noted that there is no national system for monitoring enforcement actions for the CBO portfolio.

Although many interviewees noted that the lack of a common platform does not prevent Reserve Bank staff from performing their monitoring responsibilities, certain interviewees described challenges with the current approach or described the expected benefits of adopting a common platform.

- A Reserve Bank interviewee noted that the current approach serves its purpose at the Reserve Bank level, but stakeholders who need a view of enforcement activity across the System may find a common platform more effective.
- Another Reserve Bank interviewee stated that standardization across the System would promote consistency. A Board interviewee also stated that it may be beneficial to have a common tracking system to support S&R's oversight efforts.
- A Reserve Bank interviewee noted that the current approach presents challenges because enforcement action documentation is housed across many systems. Another interviewee stated that from a management perspective, it is "time consuming and rather clunky" to access multiple systems to get information. Further, a Reserve Bank official noted that any time examination staff must enter and track information in multiple systems, there is an inherent risk that an error will occur.
- Another Reserve Bank official noted that managing supervisory issues is one of the most difficult aspects of the examination process because the technology is a barrier rather than an enabler.

We learned that the Board currently has an initiative underway to develop a common technology platform for supervisory activities across the System for institutions with less than \$100 billion in total assets, including institutions within the CBO portfolio. As of September 2019, this initiative was in its early stages and detailed business requirement discussions had not yet commenced. As a result, specific details about the technology, such as whether it would include the capabilities to monitor enforcement actions, were not available. A Reserve Bank official stated that the technology will support end-to-end business processes, which they envisioned would include MRAs, MRIAs, and enforcement actions. The official added that the business lines, including community bank supervision, will determine their priorities and will drive the scope and that enforcement stakeholders will be an important input. However, the official chose not to speculate about how the business lines envision end-to-end technology supporting the enforcement process.

We believe that implementing a common technology platform that includes capabilities for tracking and monitoring enforcement actions against CBOs may result in more consistency and enhanced

transparency into the monitoring practices within the CBO portfolio across Reserve Banks. Further, we believe that a common platform that includes CBO portfolio reporting capabilities could help the Board's oversight efforts by streamlining the process necessary to view portfolio-level information on enforcement actions. As such, we acknowledge the importance of surveying Reserve Bank and Board stakeholders to gather their user requirements for monitoring enforcement actions for institutions with less than \$100 billion in total assets.

Recommendation

We recommend that the Director of S&R

1. Ensure that System staff responsible for developing the common technology platform survey Reserve Bank and Board stakeholders to gather their user requirements to support enforcement action monitoring efforts for institutions with less than \$100 billion in total assets.

Management Response

In its response to our draft report, the Board concurs with our recommendation. The Board notes that a multiyear initiative is underway to expand the existing common technology platform for supervisory activities across the System for institutions with less than \$100 billion in total assets, including institutions in the CBO portfolio. The Board further notes that the process for developing this common technology platform will solicit input from various business lines within these portfolios and the Reserve Banks. The Board anticipates that when it gathers business requirements and develops the expanded platform, a work stream on issues management will cover all supervisory issues, including enforcement matters. Additionally, the Board notes that a governance structure is in place to ensure all relevant stakeholders are consulted during this process to gather business requirements and develop technology for these portfolios.

OIG Comment

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



Matter for Management Consideration

We identified instances of Reserve Bank staff not posting supervised institutions' progress reports describing their enforcement action remediation efforts to the required system of record. During our analysis of a sample of enforcement actions, we were unable to locate progress reports in the required system of record for several enforcement actions at two of the three Reserve Banks. For the third Reserve Bank, we were able to locate all the requested progress reports because the Reserve Bank provided us with a detailed road map—the progress reports were located in various internal systems.

The Reserve Banks in our sample require supervision staff to post progress reports to a specific system of record. FRB Atlanta and FRB Kansas City require supervision staff to post progress reports to FileNet, and FRB New York requires supervision staff to post progress reports to the Banking Organization National Desktop and FileNet. The Board's August 2015 internal guidance on Reserve Banks' record management programs states that Reserve Bank staff must capture, file, organize, and maintain supervisory documents and data in approved or designated filing systems.

We attribute the sample Reserve Banks' inconsistent posting of progress reports to the required system of record to the following factors:

- Supervision staff in one of the Reserve Banks in our sample indicated that there were no progress reports in the required system of record in 8 of 28 instances because the Reserve Bank had waived the requirement for the supervised institutions to submit the progress reports. Interviewees from this Reserve Bank explained that they sometimes grant waivers when a progress report's submission date is near an examination or because the enforcement action was in the process of being terminated. Although the Reserve Bank interviewees indicated that waivers had been granted for each case in which we could not locate a progress report, we could not always find documentation of these waivers in the system of record.
- Another Reserve Bank did not post certain progress reports to the system of record because Reserve Bank supervision staff had posted the progress reports to shared drives or in their hard drives on their work computers. Upon follow-up, the Reserve Bank was able to provide copies of these progress reports and then subsequently posted these progress reports to the system of record.
- The third Reserve Bank provided us with a detailed road map to find the progress reports for the sample enforcement actions; the Reserve Bank stored the progress reports in various locations and not always in the required system of record.

Although the three Reserve Banks were able to locate or provide a rationale for the missing progress reports, we believe that Reserve Banks should be consistently posting progress reports or documentation of the decision to waive progress reports to the required system of record. Doing so would facilitate retrieval of this information, enhance transparency, and support the Board's oversight efforts. For example, a Board interviewee explained that if Board analysts want to determine whether a supervised institution is complying with its enforcement action, the analyst may look for the most recent progress report submitted by the supervised institution or other correspondence from the Reserve Bank.

We learned that the Board has issued supplemental guidance pertaining to managing supervisory documents and data for Reserve Bank supervision staff. This guidance includes a manual that conveys expectations to Reserve Bank staff on identifying and maintaining supervisory documents and data, including enforcement action data. The manual requires that Reserve Bank staff store the supervised institutions' progress reports to the appropriate electronic recordkeeping system. We suggest that the Board consider whether it would be beneficial to conduct an assessment to determine whether all Reserve Banks have satisfied the storage and documentation requirements for posting progress reports to the appropriate electronic recordkeeping system.

During our evaluation, we did not identify any guidance from the Board or the Reserve Banks in our sample related to granting and documenting waivers. During another evaluation, we learned that a Reserve Bank outside this evaluation's sample has guidance on waiving progress reports; the guidance addresses when it is permissible to waive progress reports, who must approve waivers, how to communicate the waiver decision to the firm, and how to document the waiver.¹⁹ We suggest that the Board consider whether it would be beneficial to require Reserve Bank staff to document decisions pertaining to progress report waivers.

¹⁹ Office of Inspector General, *The Board Can Enhance Its Internal Enforcement Action Issuance and Termination Processes by Clarifying the Processes, Addressing Inefficiencies, and Improving Transparency*, [OIG Report 2019-SR-B-013](#), September 25, 2019.



Appendix A: Scope and Methodology

We initiated this evaluation to assess the effectiveness of the Board’s and the Reserve Banks’ practices for monitoring open enforcement actions against supervised financial institutions. The scope of our evaluation included formal and informal enforcement actions addressing safety and soundness or BSA/AML matters. Our evaluation addressed enforcement actions within the CBO and LFBO portfolios. We focused on two types of formal enforcement actions, written agreements and cease and desist orders, and three types of informal enforcement actions, memorandums of understanding, board resolutions, and commitment letters.²⁰ Our scope did not address enforcement actions pertaining to consumer compliance matters.

We selected a nonrandom sample of three Reserve Banks that had several open enforcement actions within the CBO or LFBO portfolios as of February 2018—FRB Atlanta, FRB Kansas City, and FRB New York. We then selected a nonrandom sample of 24 formal and informal enforcement actions pertaining to institutions supervised by these Reserve Banks. Our samples are nonstatistical, and the results of our analysis cannot be extrapolated to the entire populations of Reserve Banks or CBOs and LFBOs.

To accomplish our objective, we reviewed relevant Board policies and procedures, such as Supervision and Regulation Letters, Advisory Letters, and supervision manuals. We obtained access to key applications and repositories used to track and monitor the enforcement actions for the Reserve Banks in our sample and conducted systems walkthroughs with these Reserve Banks. We also reviewed other relevant documentation, such as enforcement action data, management reports, and documentation and correspondence associated with the sample enforcement actions. In addition, we reviewed the sample Reserve Banks’ relevant policies and procedures. We also reviewed documentation pertaining to the enforcement action monitoring practices of a sample of other federal financial regulatory agencies for informational purposes.

We interviewed officials and staff at the Board and at the sample Reserve Banks to gather their perspectives on the effectiveness of the enforcement action monitoring practices. Specifically, at the Board, we interviewed personnel in the Legal Division and S&R, including the S&R Enforcement section and the relevant portfolio sections. At each Reserve Bank, we interviewed senior supervision officers and key personnel involved in performing or overseeing monitoring activities, such as enforcement analysts and examiners.

²⁰ A cease and desist order may require the financial institution to cease and desist from practices or violations or take affirmative action to correct the violations or practices. A written agreement is signed by the institution and the Reserve Bank on behalf of the Board and may direct the institution to take certain actions to operate more consistently with regulatory expectations. A memorandum of understanding is signed by an institution’s board of directors and the Reserve Bank and states the specific remedial actions the institution has agreed to take and is generally used when an institution has multiple deficiencies that the Reserve Bank believes management can correct. A board resolution generally represents a number of commitments made by an institution’s board of directors and is incorporated into the institution’s corporate minutes. A commitment letter outlines the actions an institution’s management will take to correct minor problems.

We conducted our fieldwork from May 2018 through December 2019. We performed our evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

Appendix B: Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

March 9, 2020

Michael VanHuysen
Assistant Inspector General
for Audits and Evaluations
Board of Governors
of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC, 20551

Dear Mr. VanHuysen:

Thank you for the opportunity to comment on your draft report, *The Board Can Enhance Certain Aspects of Its Enforcement Action Monitoring Practices*. We appreciate the effort that the Office of Inspector General ("OIG") put into this report and the one recommendation provided for enhancing the effectiveness of the Board's enforcement action monitoring practices.

The evaluation focused on open enforcement actions within the community banking organization and large and foreign banking portfolios that addressed safety and soundness or Bank Secrecy Act/Anti-Money Laundering issues. The evaluation considered two types of formal enforcement actions, written agreements and cease and desist orders; and three types of informal enforcement actions, memorandums of understanding, board resolutions, and commitment letters. The scope did not address enforcement actions pertaining to consumer compliance matters. The OIG selected a nonrandom sample of three Reserve Banks, FRB Atlanta, FRB Kansas City, and FRB New York, that had several open enforcement actions within the CBO or LFBO portfolios.

The report found that the Board of Governors of the Federal Reserve System ("Board") and the Reserve Banks (together with the Board, the "Federal Reserve System" or "System") implemented effective practices to aid in monitoring enforcement actions. The report acknowledged the Federal Reserve System's initiative to develop a common

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platform for supervisory activities across the Federal Reserve System for institutions with less than \$100 billion in total assets, to include CBOs, and identified opportunities where the Board can enhance that process. In particular, the report makes the following recommendation:

Ensure that System staff responsible for developing the common technology platform survey Reserve Bank and Board stakeholders to gather their user requirements to support enforcement action monitoring efforts for institutions with less than \$100 billion in total assets.

The Division of Supervision and Regulation agrees with the conclusion in the report and actions are in place to enhance the effectiveness of the Federal Reserve System's enforcement action monitoring process for the less than \$100 billion portfolios. As indicated in the report, a multi-year initiative is underway to expand the existing common technology platform for supervisory activities across the System for these institutions, which includes institutions in the CBO portfolio.¹ The process for developing this common technology platform will solicit input from various business lines within the less than \$100 billion portfolios and the Reserve Banks. It is anticipated that when gathering business requirements and developing the expanded platform, a work stream on issues management will cover all supervisory issues, including enforcement matters. A governance structure is in place to ensure all relevant stakeholders are consulted during this process to gather business requirements and develop technology for the less than \$100 billion portfolios.

As is clear in our response, the System's common technology platform initiative is integral to addressing the recommendations resulting from your review and to enhancing the System's enforcement action monitoring processes.

Regards,



Michael S. Gibson

Director

Division of Supervision and Regulation

¹ The common technology platform in development generally applies to institutions with less than \$100 billion in assets; however, the LFBO portfolio will continue to utilize a separate platform for foreign banks under \$100 billion.



Abbreviations

BSA/AML	Bank Secrecy Act/Anti-Money Laundering
CBO	community banking organization
CPC	central point of contact
C-SCAPE	Consolidated Supervision, Comparative Analysis, Planning and Execution
FRB Atlanta	Federal Reserve Bank of Atlanta
FRB Kansas City	Federal Reserve Bank of Kansas City
FRB New York	Federal Reserve Bank of New York
iTrack	National Examination Issues Tracking Database
LFBO	large and foreign banking organization
MRA	Matter Requiring Attention
MRIA	Matter Requiring Immediate Attention
RBO	regional banking organization
S&R	Division of Supervision and Regulation
SRC	Supervision, Regulation, and Credit Division

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