



OFFICE OF INSPECTOR GENERAL

Evaluation Report

2017-MO-B-013

# The Board Can Strengthen Its Guidance and Planning Efforts for Future Evaluations of the Law Enforcement Unit

August 16, 2017

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

## Report Contributors

Jennifer Rosholt-High, Project Lead

Jessica Smith, Auditor

Lindsay Mough, OIG Manager

Timothy Rogers, Senior OIG Manager for Management and Operations

Melissa Heist, Associate Inspector General for Audits and Evaluations

## Abbreviations

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Board	Board of Governors of the Federal Reserve System
IOC	Internal Oversight Committee
LEU	Law Enforcement Unit
OIG	Office of Inspector General
Reserve Bank IOC Audit Program	IOC Law Enforcement Audit Program
<i>Uniform Regulations</i>	<i>Uniform Regulations for Federal Reserve Law Enforcement Officers</i>

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## Executive Summary:

# The Board Can Strengthen Its Guidance and Planning Efforts for Future Evaluations of the Law Enforcement Unit

2017-MO-B-013

August 16, 2017

### Purpose

As part of our external oversight function duties for the Board of Governors of the Federal Reserve System's (Board) Law Enforcement Unit (LEU), we conducted an evaluation of the Board Internal Oversight Committee's (IOC) evaluation of the Board's LEU. Our objective was to assess the Board IOC's 2015 evaluation of the LEU's compliance with the *Uniform Regulations for Federal Reserve Law Enforcement Officers (Uniform Regulations)* and internal policies and procedures.

### Background

The *Uniform Regulations* establishes basic policies and procedures governing the exercise of federal law enforcement authority throughout the Federal Reserve System. The *Uniform Regulations* requires the Board LEU and each Federal Reserve Bank LEU to establish an IOC with inspection and evaluation responsibilities. In addition, the *Uniform Regulations* designates the Board's Office of Inspector General as responsible for performing the external oversight function for the Board LEU.

In October 2015, the Board IOC conducted an evaluation of the Board LEU in accordance with the *Uniform Regulations*. The IOC found that the LEU complied with all aspects of the *Uniform Regulations*, had effective controls in place, and maintained adequate supporting documentation.

### Findings

We found that the IOC did not provide the individuals who conducted the October 2015 evaluation of the Board LEU with guidance on documenting the testing performed or the basis for all conclusions. As a result, we did not have sufficient documentation to enable us to fully assess the IOC's evaluation of the LEU's compliance with the *Uniform Regulations* and internal policies and procedures. We also found that the IOC does not have detailed written guidance to ensure that evaluations are consistently and effectively conducted. Additionally, the IOC has not finalized a plan for identifying and securing resources with the requisite background and expertise to conduct future evaluations.

### Recommendations

Our report contains recommendations to improve the IOC's inspection and evaluation process. Our recommendations are designed to help ensure that evaluations are thoroughly documented and consistently conducted and that appropriate resources are available for future reviews. In his response to our draft report, the Chief Operating Officer generally concurs with our recommendations and describes actions the Board will take to address our recommendations.

## Summary of Recommendations, OIG Report 2017-MO-B-013

Recommendation number	Page	Recommendation	Responsible office
1	6	Ensure that the Internal Oversight Committee develops guidance on documenting Internal Oversight Committee evaluations that instructs evaluators on how to support their conclusions.	Office of the Chief Operating Officer
2	8	Ensure that the Internal Oversight Committee strengthens Internal Oversight Committee evaluation guidance by detailing specific expectations for conducting Internal Oversight Committee evaluations and determining compliance.	Office of the Chief Operating Officer
3	9	Finalize a plan to identify and secure resources with the appropriate expertise to conduct future Internal Oversight Committee evaluations.	Office of the Chief Operating Officer



## OFFICE OF INSPECTOR GENERAL

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

August 16, 2017

### MEMORANDUM

**TO:** Donald V. Hammond  
Chief Operating Officer  
Board of Governors of the Federal Reserve System

Nicholas Trotta  
Chair, Internal Oversight Committee, and Manager, Federal Reserve Bank Protection  
Board of Governors of the Federal Reserve System

**FROM:** Melissa Heist *Melissa Heist*  
Associate Inspector General for Audits and Evaluations

**SUBJECT:** OIG Report 2017-MO-B-013: *The Board Can Strengthen Its Guidance and Planning Efforts for Future Evaluations of the Law Enforcement Unit*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the Board of Governors of the Federal Reserve System (Board) Internal Oversight Committee's 2015 evaluation of the Board Law Enforcement Unit's compliance with the *Uniform Regulations for Federal Reserve Law Enforcement Officers* and internal policies and procedures.

We provided you with a draft of our report for review and comment. In your response, you generally concur with our recommendations and outline actions that the Board will take to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from the Office of the Chief Operating Officer, the Management Division, and the Board Internal Oversight Committee. Please contact me if you would like to discuss this report or any related issues.

cc: Ricardo Aguilera, Chief Financial Officer and Director, Division of Financial Management  
Michell Clark, Director, Management Division

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# Introduction

## Objective

We conducted an evaluation of the Board of Governors of the Federal Reserve System (Board) Internal Oversight Committee's (IOC) evaluation of the Board Law Enforcement Unit (LEU). Our objective was to assess the Board IOC's 2015 evaluation of the LEU's compliance with the *Uniform Regulations for Federal Reserve Law Enforcement Officers (Uniform Regulations)*<sup>1</sup> and internal policies and procedures. Details on our scope and methodology are in appendix A.

## Background

The USA PATRIOT Act of 2001 amended section 11 of the Federal Reserve Act, authorizing Federal Reserve personnel to “act as law enforcement officers to protect and safeguard the premises, grounds, property, personnel, including members of the Board, of the Board, or any Federal reserve bank and operations conducted by or on behalf of the Board or a reserve bank.” The act provides that such law enforcement authorities may be exercised only pursuant to regulations prescribed by the Board and approved by the Attorney General. As such, the Board issued its *Uniform Regulations*, which were approved by the Attorney General, on June 18, 2002.

### ***The Board's Uniform Regulations for Federal Reserve Law Enforcement Officers***

The Board's *Uniform Regulations* establishes basic policies and procedures governing the exercise of federal law enforcement authority by personnel of the Board and the 12 Federal Reserve Banks. The *Uniform Regulations* also requires the Board and the Reserve Banks to adopt specific policies and procedures that are appropriate to the needs of their facilities and personnel.

The *Uniform Regulations* requires that each LEU establish an IOC to complete inspections and evaluations (collectively, evaluations) of the LEU. The IOCs are responsible for ensuring that the Federal Reserve System LEUs have a system of management controls in place and are maintaining the appropriate administrative records to document compliance with these regulations. Each IOC is required to provide a written report of each evaluation to the respective external oversight function. The regulations designate the Office of Inspector General (OIG) as the external oversight function for the Board LEU. In that role, we are required to conduct

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1. Board of Governors of the Federal Reserve System, *Uniform Regulations for Federal Reserve Law Enforcement Officers*, S-2609, June 18, 2002.

“continuing reviews and evaluations of law enforcement programs and operations.” This report is the result of our work as the external oversight function.

### ***The Board LEU’s General Orders***

As required by the *Uniform Regulations*, the Board LEU established specific policies and procedures that are maintained in a manual titled *General Orders*. These policies and procedures facilitate the implementation of rules, regulations, and procedures, and they document the LEU’s structure, roles, and responsibilities. The *General Orders* addresses the following topics:

- internal oversight
- credentials and badges
- training
- firearms and ammunition
- incident reports
- use of force
- arrest powers
- plain-clothes operations

### ***The Board IOC and Governing Internal Guidance***

In our 2014 report on the LEU, we found that the IOC had not performed any evaluations of the LEU since 2004 and had not met on a routine basis.<sup>2</sup> In that report, we made two recommendations regarding these IOC matters.

In response to our recommendations, the Board’s Chief Operating Officer established a formal procedure for appointing committee members in the *By-laws Relating to the Administration of the Internal Oversight Committee of the Board’s Law Enforcement Unit*. The bylaws state the following:

- The IOC comprises two representatives from the Management Division and one representative each from the Legal Division, the Office of Board Members, and the Division of Reserve Bank Operations and Payment Systems.
- The Director of the Management Division is responsible for designating individuals from the Management Division to serve on the IOC. The Directors of each of the other divisions are responsible for designating a senior-level staff person from their respective division to serve on the committee.
- The Chief Operating Officer is responsible for designating one of the members as the IOC Chair.

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2. Office of Inspector General, *The Board’s Law Enforcement Unit Could Benefit From Enhanced Oversight and Controls to Ensure Compliance With Applicable Regulations and Policies*, [OIG Report 2014-AE-B-006](#), March 28, 2014.



The IOC Chair, who was appointed on November 5, 2013, developed the *Board Law Enforcement Unit Internal Oversight Committee Policy on Meetings and Inspections and Evaluations*, effective February 10, 2015. This policy establishes that the IOC will

- meet twice a year
- conduct evaluations of the Board LEU on a 3-year cycle
- for each evaluation, follow Reserve Bank IOC protocols and use a scope that is consistent with the Reserve Bank IOCs' scope

In 2015, we determined that the actions outlined above sufficiently addressed our recommendations.

### ***The Board IOC's Evaluation of the LEU***

The Board IOC conducted an evaluation of the Board LEU in October 2015 in accordance with the *Uniform Regulations*. The evaluation had four objectives:

- Determine the extent of compliance with the *Uniform Regulations* and the *General Orders*.
- Inspect and evaluate the effectiveness of management controls established by the LEU.
- Verify the existence and adequacy of supporting documentation.
- Identify and communicate any opportunities for improvement.

The IOC evaluation was conducted by three evaluators who were experienced Federal Reserve Law Enforcement Officers from three different Reserve Banks. The IOC Chair oversaw the evaluation and provided the evaluators with a checklist historically used during Reserve Bank IOC evaluations to guide and document the evaluators' review of the LEU's compliance with the *Uniform Regulations* and internal policies and procedures. The checklist contains three sections:

- Section 1 is used to review compliance with the *Uniform Regulations*; subsections include Purpose and Scope, General Definitions, Qualifications and Standards, Jurisdiction, Cross-Designation, Training, Authority to Carry Firearms, Use of Force, Arrest Powers, Execution of Searches, Policy for Plain Clothes Operations, and Internal Oversight.
- Section 2 is used to review compliance with the *Federal Reserve System Law Enforcement Training Manual* and Federal Law Enforcement Training Accreditation standards and to ensure reaccreditation.
- Section 3 is used to ensure that the LEU is in compliance with implementing the Federal Reserve System's *Use of Force Response Plan Guidelines*.

Each section includes a set of questions to guide the evaluators' assessment of the LEU's compliance with the requirements. The evaluators added their conclusions on compliance in a column labeled *Supporting Documentation*.

The IOC evaluation found that the LEU complied with all aspects of the *Uniform Regulations*, had effective controls in place, and maintained adequate supporting documentation. The IOC issued a memorandum on these results to the OIG, in our role as the external oversight function, in December 2015. The approach outlined in the memorandum—to use Federal Reserve Law Enforcement Officers from the Reserve Banks—was consistent with the approach communicated to the OIG prior to the Board IOC's 2015 evaluation.

### ***Internal Oversight of the Federal Reserve Banks' LEUs***

Similar to the Board IOC, the Reserve Bank IOCs must inspect and evaluate their respective law enforcement program and management controls and report the results of the evaluation at least triennially. On February 10, 2015, the Board revised its policy governing Reserve Bank LEUs. The updated policy states that each Reserve Bank IOC may request that its internal audit department conduct the evaluation and may consider the audit department's assessment in its overall evaluation. The majority of Reserve Bank IOCs now use their respective audit departments to conduct the IOC evaluation.

To conduct its evaluations and assess compliance with the *Uniform Regulations*, the Reserve Bank audit community uses a common IOC Law Enforcement Audit Program (Reserve Bank IOC Audit Program). The program incorporates the questions from the IOC checklist; however, it also includes more detailed guidance on how to address each question.

# Finding 1: The Board IOC Does Not Have Guidance to Ensure That IOC Evaluations Are Thoroughly Documented

Although we were able to reach the same conclusions as the evaluators for some of the IOC evaluation checklist questions, we were unable to fully assess the Board IOC's evaluation of the LEU's compliance with the *Uniform Regulations* and internal policies and procedures due to insufficient documentation. In its *Standards for Internal Control in the Federal Government*, the U.S. Government Accountability Office highlights the importance of maintaining documentation in a manner that allows it to be readily available for examination. The evaluators did not fully document the testing performed or the basis for all conclusions because the IOC had not provided the evaluators guidance on documenting this type of supporting information. Thoroughly documenting evaluations can assist the IOC in ensuring that conclusions are supported and can be confirmed. In addition, documenting evaluations can assist in the transfer of knowledge to successor IOC members and evaluators.

## The IOC Should Develop Documentation Guidance to Ensure That Evaluation Results Are Supported

We reviewed the completed checklist, including the evaluators' conclusions on compliance for each checklist question within our scope, to assess the IOC's evaluation of the LEU. We were able to reach the same conclusions as the evaluators for some checklist questions. For example, we were able to confirm the results related to whether LEU policies and procedures are consistent with the *Uniform Regulations*. We could not verify the testing performed or understand the basis for all remaining conclusions, however, because certain supporting information was not documented. For example, one evaluator informed us that he had tested 60 training records, but he did not document the list of the records tested or the methodology for selecting the sample. In addition, we learned during interviews with the evaluators that they based their conclusions for some questions on interviews with LEU personnel and observations of LEU operations. Their corresponding checklist responses, however, did not specify the basis for the conclusions and only indicated that LEU activities and procedures complied with the *General Orders*.

According to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, internal controls, and all transactions and significant events, should be clearly documented. Specifically, the documentation should be properly maintained and readily available for examination.

The evaluators did not fully document the testing performed or the basis for all conclusions because the IOC did not provide the evaluators with guidance on documenting this type of supporting information. According to the IOC Chair, the IOC has not developed such guidance. Without supporting documentation, we, as the external oversight function, were unable to fully assess all sections of the IOC's evaluation of the Board LEU because we could not validate all the testing conducted and reasonably reach the same conclusions. Thoroughly documenting evaluations can assist the IOC in ensuring that conclusions are supported and can be confirmed.

We also note that the availability of supporting documentation from prior reviews would facilitate the transfer of knowledge to successor IOC members and future evaluators.

## **Recommendation**

We recommend that the Chief Operating Officer

1. Ensure that the IOC develops guidance on documenting IOC evaluations that instructs evaluators on how to support their conclusions.

## **Management's Response**

In his response to our draft report, the Chief Operating Officer generally concurs with our recommendation. The Chief Operating Officer has begun taking steps to consult Federal Reserve System staff with relevant expertise for advice on how to incorporate documentation standards as a supplement to the checklist historically used for IOC evaluations.

## **OIG Comment**

We believe that the actions described by the Chief Operating Officer are responsive to our recommendation. We plan to follow up on the actions described to ensure that the recommendation is fully addressed.

## Finding 2: The Board IOC Does Not Have Written Guidance on How to Evaluate LEU Compliance

Although the IOC Chair provided the evaluators with the IOC checklist and verbal guidance, written guidance on how to conduct the evaluation and determine compliance was not provided. We note that the Reserve Bank IOC Audit Program used by the Reserve Bank audit community contains detailed guidance on how to conduct Reserve Bank IOC evaluations. The Board IOC has not developed written guidance on conducting Board LEU evaluations because the IOC's focus was on conducting its first evaluation since 2004. Providing detailed written guidance on conducting evaluations can help ensure that IOC evaluations are effectively and consistently conducted.

### **The IOC Should Develop Guidance to Ensure Effective and Consistent Evaluations**

For the IOC's 2015 evaluation of the Board LEU, the IOC Chair provided the evaluators with the IOC checklist to guide the evaluation and general verbal guidance on conducting the evaluation. However, the IOC checklist does not establish expectations related to sampling records or outline test steps to aid the evaluators in completing the evaluation and determining compliance.

The evaluators were responsible for independently determining how to assess compliance with each checklist question, including which documents to review and which test steps to conduct. For example, checklist questions ask evaluators to assess the effectiveness of certain policies and procedures and determine whether the policies and procedures were understood by the Board LEU officers. The checklist does not provide guidance, however, on the appropriate steps to take to answer those questions. Therefore, the evaluators developed their own supplemental questions to gauge the effectiveness of policies and procedures. In addition, the checklist includes questions that require the review of LEU documentation but does not provide evaluators with guidance on sampling expectations.

The Reserve Bank IOC Audit Program used by the Reserve Bank audit community to conduct IOC evaluations of Reserve Bank LEUs contains specific guidance and detailed test steps for each checklist question, including sampling expectations. We believe the practice of providing specific guidance on how to conduct IOC evaluations can assist in ensuring that the evaluations are consistently and effectively conducted.

According to the IOC Chair, the IOC has not developed specific written guidance on conducting evaluations because the IOC's focus was on conducting its first evaluation since 2004. Relying on verbal guidance or the evaluators' independent determination on how to assess compliance may result in the evaluators not performing all steps the IOC deems necessary in determining compliance. In addition, future IOC evaluations may not be executed consistently.

## **Recommendation**

We recommend that the Chief Operating Officer

2. Ensure that the IOC strengthens IOC evaluation guidance by detailing specific expectations for conducting IOC evaluations and determining compliance.

## **Management's Response**

In response to our draft report, the Chief Operating Officer generally concurs with our recommendation. The Chief Operating Officer has begun taking steps to consult Federal Reserve System staff with relevant expertise for advice on how to incorporate evaluation criteria as a supplement to the checklist historically used for IOC evaluations.

## **OIG Comment**

We believe that the actions described by the Chief Operating Officer are responsive to our recommendation. We plan to follow up on the actions described to ensure that the recommendation is fully addressed.



# Finding 3: The Board IOC Does Not Have a Finalized Plan to Identify Resources for Future Evaluations

The IOC does not have a finalized plan for identifying and securing resources with the requisite background and expertise to conduct future evaluations. Adequate resource planning can assist the IOC in ensuring that future evaluations will be performed by individuals with the appropriate law enforcement background and expertise.

## The IOC Should Finalize a Plan to Ensure That Evaluations Continue to Be Conducted by Individuals With Requisite Expertise

To ensure that the 2015 evaluation was conducted by individuals with the requisite law enforcement background and expertise, the IOC used law enforcement officers from the Reserve Banks. The evaluators collectively had over 40 years of law enforcement experience and were familiar with the *Uniform Regulations* and the IOC checklist. We commend the Board IOC for recognizing the value that evaluators with law enforcement experience and independence would bring to the evaluation.

At the time of our evaluation, the IOC Chair described potential alternatives for identifying resources to conduct future evaluations of the LEU but had not finalized a plan. The IOC Chair informed us that Reserve Bank law enforcement officers may not be able to be used in the future due to costs and potential resource availability. The IOC Chair further indicated that because the IOC does not have dedicated resources to conduct its evaluations, the IOC members themselves may be required to conduct future evaluations. We do not believe it is reasonable or appropriate for the senior-level staff who constitute the IOC to conduct evaluations of the LEU, given the responsibilities and commitments required of them in their official positions. Additionally, the IOC members may not possess the requisite subject-matter expertise to conduct the evaluations. Without an adequate resource plan, the IOC cannot ensure that evaluations of the LEU's compliance with the *Uniform Regulations* and internal policies and procedures will be performed by individuals with the appropriate expertise.

## Recommendation

We recommend that the Chief Operating Officer

3. Finalize a plan to identify and secure resources with the appropriate expertise to conduct future IOC evaluations.

## Management's Response

In response to our draft report, the Chief Operating Officer generally concurs with the recommendation. The Chief Operating Officer stated that he and the IOC Chair have discussed various options for identifying and securing resources with the appropriate expertise to conduct

future IOC evaluations. The Chief Operating Officer is currently working toward finalizing a plan that provides various alternatives for staffing evaluations with evaluators who have the appropriate expertise. The selection of an alternative will be made on a case-by-case basis for each evaluation and will reflect the nature of the evaluation and the availability of resources at the time.

## **OIG Comment**

We believe that the actions described by the Chief Operating Officer are responsive to our recommendation. We plan to follow up on the actions described to ensure that the recommendation is fully addressed.

# Appendix A

## Scope and Methodology

The scope of our evaluation was the 2015 IOC evaluation of the Board LEU. Specifically, we examined the following sections of the checklist completed for the Board IOC's 2015 evaluation:

- Purpose and Scope
- Qualifications and Standards
- Training
- Internal Oversight
- Use of Force Response Plan

To accomplish our objective, we reviewed the OIG's 2014 evaluation of the Board LEU, the Board's *Uniform Regulations*, the LEU's *General Orders*, and the Board IOC's October 2015 evaluation report titled *Activities of the Internal Oversight Committee for the Law Enforcement Unit* and the accompanying IOC checklist. We also analyzed the responses in the IOC checklist provided by the evaluators for the October 2015 evaluation of LEU compliance and compared them to the requirements established in the *Uniform Regulations* and the *General Orders*.

We interviewed the IOC Chair, the IOC Secretary, and the other IOC members to gain an understanding of their role on the IOC and their involvement in the 2015 IOC evaluation. We also interviewed the three evaluators who completed the 2015 IOC evaluation to learn about their process for completing the IOC checklist. We interviewed key personnel in the Federal Reserve Bank audit community to discuss how IOC reviews are conducted in the Reserve Banks and to gain an understanding of the Reserve Bank IOC Audit Program. We also reviewed the Reserve Bank IOC Audit Program to learn about the Reserve Bank IOC evaluation process.

We conducted our evaluation from November 2016 through April 2017 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



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

OFFICE OF THE  
CHIEF OPERATING OFFICER

August 8, 2017

Mr. Mark Bialek  
Inspector General  
Board of Governors of the Federal Reserve System  
Washington, D.C. 20551

Dear Mr. Bialek:

Thank you for the opportunity to comment on the draft report evaluating the 2015 evaluation performed by the Board's Internal Oversight Committee (IOC) of the Board's Law Enforcement Unit (LEU). The report recognizes the comprehensive efforts undertaken to reestablish the IOC evaluation process. We appreciate the input that the Office of Inspector General (OIG) has provided on steps taken by the IOC to date.

The draft report contains three recommendations related to strengthening IOC guidance and planning efforts for future evaluations of the LEU. We are in general agreement with the recommendations and have identified approaches to implementing them, as outlined below.

The first and second recommendations both relate primarily to strengthening written guidance and documentation for specific aspects of an evaluation. Implementation of these recommendations will enhance the usefulness and effectiveness of evaluations. We have begun taking steps to consult Federal Reserve System staff with relevant expertise to advise us on how to supplement the checklist historically used for IOC evaluations with respect to documentation standards and evaluation criteria.

The third recommendation is that the OCOO finalize a plan to identify and secure resources with the appropriate expertise to conduct future IOC evaluations. We appreciate that the draft report commends the IOC on steps taken to ensure that the 2015 evaluation was conducted by individuals with the requisite law enforcement background and expertise. Given the periodic nature of the evaluations, dedicated resources are not practical. The IOC Chair and I have discussed various options for identifying and securing resources with the appropriate expertise to conduct future IOC evaluations and related issues presented by the different options. We are working toward finalizing a


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plan that provides various alternatives for staffing evaluations with evaluators that have the appropriate expertise. The selection of an alternative for each evaluation will be done on a case-by-case basis reflecting the nature of the evaluation and the availability of resources at the time.

Thank you, again, for the opportunity to provide comments to the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Hammond', written in a cursive style.

Donald V. Hammond  
Chief Operating Officer

cc: Nick Trotta, IOC Chair



## OFFICE OF INSPECTOR GENERAL

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

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Fax: 202-973-5044

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