

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



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

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

Our audit, evaluation, and inspection reports explain why we conducted the review and the issues we found that should be corrected or improved, and they contain specific recommendations for agency corrective action. Table 1 shows, as of March 31, 2019, the total number and status of recommendations we made to the Board for the calendar years in which recommendations remain open.¹

¹ Some reports are restricted and not publicly available because they contain sensitive information.

Table 1. Status of Recommendations for Calendar Years in Which Recommendations Remain Open, as of March 31, 2019

| Status | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------|------|------|------|------|------|------|------|-----------------|----------------|
| Recommendations | 24 | 66 | 35 | 57 | 38 | 40 | 41 | 57 | 2 |
| Open | 2 | 1 | 1 | 2 | 5 | 15 | 22 | 50 | 2 |
| Closed | 22 | 65 | 34 | 55 | 33 | 25 | 19 | 7 | 0 |
| Public recommendations | 14 | 18 | 20 | 52 | 29 | 30 | 41 | 37 | 2 |
| Open | 2 | 0 | 1 | 2 | 2 | 6 | 22 | 30 ^a | 2 ^a |
| Closed | 12 | 18 | 19 | 50 | 27 | 24 | 19 | 7 | 0 |
| Nonpublic recommendations | 10 | 48 | 15 | 5 | 9 | 10 | 0 | 20 | 0 |
| Open | 0 | 1 | 0 | 0 | 3 | 9 | 0 | 20 | 0 |
| Closed | 10 | 47 | 15 | 5 | 6 | 1 | 0 | 0 | 0 |

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

This document provides a list of publicly available report recommendations we made to the Board that have been open for more than 12 months as of March 31, 2019, and their status. The status designations and their definitions are as follows:

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

For inquiries about the list of open recommendations, please contact oig.media@frb.gov or 202-973-5043.

Publicly Available Board Recommendations Open for More Than 12 Months

| Report title | Issuance date | Recommendation | Recommendation status |
|---|---------------|--|--------------------------|
| Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings 2011-30-SR-B | 06/13/2011 | 1. Update the Rulemaking Procedures Policy Statement and broadly disseminate it to all employees involved in rulemaking activities. We suggest that this document address the Board's philosophy and principles supporting its rulemaking activities and identify preferred practices. | Agency action |
| | | 2. Consider establishing documentation standards for rulemaking economic analysis to help ensure reproducibility on an internal basis. | Agency action |
| The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control 2013-AE-B-013 | 09/05/2013 | 1. Designate responsible officials or an office to <ol style="list-style-type: none"> develop and implement an agency-wide policy and process to more closely follow the spirit and intent of the Federal Managers' Financial Integrity Act of 1982. develop a training program to increase staff awareness about maintaining and monitoring administrative internal control. | Agency action |
| Enforcement Actions and Professional Liability Claims Against Institution-Affiliated Parties and Individuals Associated with Failed Institutions 2014-SR-B-011 | 07/25/2014 | 6. (To FRB and OCC) Advise their regulated institutions about insurance policy exclusions. | Agency concurrence |
| Opportunities Exist to Improve the Operational Efficiency and Effectiveness of the Board's Information Security Life Cycle 2014-IT-B-021 | 12/18/2014 | 2. Ensure that system owners develop and input the security documentation for all Board-owned and -operated systems into the automated workflow tool. | Verification in progress |
| Review of the Failure of Waccamaw Bank 2015-SR-B-005 | 03/26/2015 | 4. Review and update the Board's Guidelines for Appeals of Material Supervisory Determinations to establish a framework for Federal Reserve Bank Presidents and the Board to conduct appeals. In addition to any enhancements identified during the review, the framework should address <ol style="list-style-type: none"> the standard of review for the appeal. whether the appellant has the burden of proof to demonstrate that the material supervisory determination should be reversed. whether the party assessing the higher-level appeal is limited to reviewing the prior factual record. whether the appellant has the right to comment on the evidence providing the basis for the initial material supervisory determination, even if confidential supervisory information protections apply. | Agency action |

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|---|---------------|---|---|
| | | 5. Ensure that the Board updates its appeals policy to prohibit supervisory team members from coordinating any aspect of the appeal process. | Agency action |
| 2016 Audit of the Board's Information Security Program 2016-IT-B-013 | 11/10/2016 | 1. Work with the Chief Operating Officer to perform a risk assessment to determine which aspects of an insider threat program are applicable to other types of sensitive Board information and develop and implement an agency-wide insider threat strategy for sensitive but unclassified Board information, as appropriate. | Agency concurrence |
| | | 8. Develop and implement a plan to <ol style="list-style-type: none"> a. transition the Board's external network to a Trusted Internet Connections service provider. b. utilize the services offered by the U.S. Department of Homeland Security's EINSTEIN program, as appropriate. | Agency action |
| Opportunities Exist to Increase Employees' Willingness to Share Their Views About Large Financial Institution Supervision Activities 2016-SR-B-014 | 11/14/2016 | 1. Encourage the Division of Banking Supervision and Regulation and the Reserve Banks to enhance efforts to address the reasons that employees involved in large financial institution supervision choose not to share their views by <ol style="list-style-type: none"> a. reinforcing the importance of Board and Reserve Bank decisionmakers and leaders actively soliciting views from employees, explaining the rationale for their decisions to employees, and underscoring the importance of employees sharing their views. b. developing an approach to monitor the Federal Reserve System's progress toward addressing cultural elements that affect employees' willingness to share their views. c. assessing the current dynamics on large financial institution supervisory teams. For those teams that evidence employees' reticence to share their views, develop plans to improve team dynamics. | Partial implementation Part (a) of this recommendation is closed; parts (b) and (c) remain open. |
| | | 2. Encourage the Division of Banking Supervision and Regulation and the Reserve Banks to work with their human resources departments to <ol style="list-style-type: none"> a. ensure that performance and incentive compensation criteria for officers and team leaders responsible for large financial institution supervision encourage leadership behaviors and competencies that foster employee willingness to share views. b. hold Reserve Bank team leaders accountable to their team by requiring the rating official to gather input from all or a sampling of employees who work for the relevant leader as part of the performance management process. c. reinforce the importance of Division of Banking Supervision and Regulation and Reserve Bank leaders providing specific, ongoing, and actionable feedback to their employees during performance discussions. d. establish specific, readily accessible behavioral performance criteria for promotions by grade level or position group. e. explain to employees the individual development opportunities they need to address to achieve promotion. f. evaluate informal and formal awards and recognition programs and implement necessary improvements to (i) recognize employees who share their views constructively and effectively and (ii) reward employees, managers, and officers when they demonstrate behaviors and traits that lead to open communication, improved organizational health and culture, and increased willingness of employees to share their views. | Agency action |

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| | | <p>8. Evaluate whether Federal Reserve System management and leadership development programs reinforce the importance of the leadership behaviors and processes outlined in Findings 1 and 2. Encourage the developers of the programs to modify the content based on the results of that evaluation, if necessary. Ensure that Reserve Bank and Board leaders in the supervision program participate in those updated programs, as necessary.</p> | Agency action |
| | | <p>9. Encourage the Reserve Banks to work with their human resources departments to</p> <ul style="list-style-type: none"> a. consider the appropriate balance between leadership, management, and team-building skills and technical supervision skills as key competencies when filling supervisory leadership positions. b. develop methods to better identify when managers are inhibiting employees' willingness to share views or are exhibiting behaviors that limit open communication and detract from positive team dynamics. c. define the circumstances, if any, in which managers who detract from team dynamics or inhibit employees' willingness to share views should be reassigned or counseled. | Agency action |
| <p>The Board Can Enhance Its Cybersecurity Supervision Approach in the Areas of Third-Party Service Provider Oversight, Resource Management, and Information Sharing</p> <p>2017-IT-B-009</p> | 04/17/2017 | <p>1. Reiterate to financial institutions the requirement to notify their primary regulator of the existence of new service relationships, and develop a process to periodically reconcile and refresh the listing of multiregional data processing firms and technology service providers.</p> | Agency action |
| | | <p>2. Evaluate options for enhancing the oversight of multiregional data processing firms and technology service providers, and based on this assessment, identify and implement an enhanced governance structure for supervision of these entities.</p> | Agency action |
| | | <p>3. Work with other federal banking agencies and the Board's Legal Division, as appropriate, to provide clarification and guidance to examination teams regarding the identification of service relationships and the expectations for supervising multiregional data processing servicer firms and technology service providers.</p> | Agency action |
| | | <p>4. Establish a process to document the information technology systems being used at the multiregional data processing firms and technology service providers, and ensure that the Cybersecurity Analytics Support Team is aware of this information so it can provide relevant cybersecurity alerts to supervisory teams.</p> | Agency action |

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| 2017 Audit of the Board's Information Security Program 2017-IT-B-018 | 10/31/2017 | 1. Ensure that <ul style="list-style-type: none"> a. an optimal governance structure for enterprise risk management is implemented that includes considerations for a Chief Risk Officer or equivalent function. b. an Enterprise Risk Management strategy is used to maintain a risk profile for the Board. | Agency concurrence |
| | | 2. Work with the Chief Information Officer to ensure that the agency's standard contracting language includes the Board's security assurance requirements for third parties, as necessary. | Agency concurrence |
| | | 3. Work with the Chief Information Officer to evaluate applicable contracts with third-party providers to determine whether additional amendments are needed to ensure that the necessary security assurance requirements are referenced. | Verification in progress |
| | | 4. Ensure that the Board's enterprise architecture includes technologies managed by all divisions, and work with the Chief Operating Officer to enforce associated review processes agencywide. | Agency concurrence |
| | | 5. Develop and implement an agencywide identity, credential, and access management strategy that assesses current processes, provides a vision for the desired future state, and identifies plans to achieve that future state. | Agency concurrence |
| | | 7. Ensure that <ul style="list-style-type: none"> a. the agency's updated Suitability policy is implemented across the organization and divisions assign risk and sensitivity designations for their respective positions. b. investigations are conducted in accordance with the updated Suitability policy. | Agency concurrence |
| | | 8. Develop, implement, and regularly update an information security continuous monitoring strategy that includes performance measures to gauge the effectiveness of related processes and provides agencywide security status. | Agency concurrence |
| | | The Board's Organizational Governance System Can Be Strengthened 2017-FMIC-B-020 | 12/11/2017 |
| 2. Develop committee charters for the Board's standing committees that include <ul style="list-style-type: none"> a. committee purpose. b. committee chair and member roles and responsibilities, including their authorities. c. Board official roles and responsibilities, including their authorities. d. committee working procedures, such as processes to set agendas and to capture and disseminate key information from committee meetings. | Agency action | | |

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|--------------|---------------|--|-----------------------|
| | | <p>3. Develop and document a process to regularly assess the standing committees' achievements of their chartered purposes, roles and responsibilities, and working procedures and update the charters or disband standing committees as necessary. This process should include feedback from standing committee members.</p> | Agency action |
| | | <p>4. Enhance and document the Governor orientation program to better prepare Governors for their roles and responsibilities, including but not limited to,</p> <ul style="list-style-type: none"> a. an overview of policymaking roles and responsibilities. b. an overview of division oversight roles and responsibilities. c. an overview of Board management and operations. d. a list of key experts from each Board area. e. procedures for handling sensitive information. f. reference documents for Governors' use. | Agency action |
| | | <p>5. Review and formalize the process for Governors to request and obtain dedicated advisors, including presenting new Governors with options for and considerations associated with selecting advisors from inside or outside the Board.</p> | Agency action |
| | | <p>6. Determine Governors' information needs, both within and outside the committee structure, and communicate those to Board officials, including</p> <ul style="list-style-type: none"> a. the type of information to be shared, such as information regarding strategic and operational decisions. b. the extent and timing of information sharing, such as encouraging two-way collaborative discussions. c. the documentation of communication expectations in committee charters or other relevant documents. | Agency action |
| | | <p>10. Communicate and reinforce the Board of Governors' expectations of the Chief Operating Officer and the heads of the enterprisewide administrative functions to all Division Directors and consider tools that will enable the Board of Governors to enhance the effectiveness of these functions, such as</p> <ul style="list-style-type: none"> a. holding periodic meetings with the Chief Operating Officer to discuss the administration of the agency and progress on administrative initiatives. b. identifying and implementing mechanisms to hold Division Directors accountable for their role in the administrative functions. | Agency action |
| | | <p>11. Implement processes to report on enterprisewide actions to ensure compliance with the policies created by the Chief Operating Officer and the heads of the administrative functions.</p> | Agency action |
| | | <p>12. Update the Organization and Procedures policy to include the Executive Committee as a consultative body and formally designate a committee chair.</p> | Agency concurrence |

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| | | 13. Define and document in an Executive Committee charter, at minimum, a. the purpose of the committee. b. the committee participants and their respective roles and responsibilities, including their authorities. c. working procedures, such as a process for setting agenda items. d. the expectations for the communication of actions. | Agency concurrence |
| | | 14. Develop a process to regularly assess the Executive Committee's achievement of its chartered purpose, roles and responsibilities, and working procedures and update the charter as necessary. This process should include feedback from Executive Committee members. | Agency concurrence |