Evaluation Report
2017-FMIC-B-020
December 11, 2017

Board of Governors of the Federal Reserve System

The Board's Organizational Governance System Can Be Strengthened

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

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Executive Summary, 2017-FMIC-B-020, December 11, 2017

The Board's Organizational Governance System Can Be Strengthened

Findings

The Board of Governors of the Federal Reserve System (Board) has established a core organizational governance structure comprising standing committees and administrators, a Chief Operating Officer, and an Executive Committee. This structure aligns with selected governance principles and benchmark organizations. The Board's public disclosure of governance documents is also consistent with these governance principles and organizations.

Nonetheless, the Board can strengthen its governance system by

- clarifying and regularly reviewing purposes, roles and responsibilities, authorities, and working procedures of its standing committees
- enhancing the orientation program for new Governors and reviewing and formalizing the process for selecting dedicated advisors
- setting clearer communication expectations and exploring additional opportunities for information sharing among Governors
- reviewing, communicating, and reinforcing the Board of Governors' expectations of the Chief Operating Officer and the heads of the administrative functions
- establishing and documenting the Executive Committee's mission, protocols, and authorities

Strengthening the Board's core governance structures should enable the Board to more efficiently and effectively achieve its objectives.

Recommendations

Our report contains recommendations designed to strengthen the Board's organizational governance structures by clarifying roles and responsibilities, authorities, and working procedures; regularly reviewing the effectiveness of governance structures; and setting a strong tone at the top. In its response to our draft report, the Board of Governors generally concurs with our recommendations and identifies the officials responsible for coordinating work on the recommendations and presenting options to the Board of Governors for the Governors' consideration and appropriate action. We will conduct follow-up activities to determine whether the Board's actions are responsive to our recommendations.

Purpose

The objectives of our evaluation were (1) to describe the current state of the Board's organizational governance structures and processes and (2) to assess the extent to which these structures and processes align with those of other relevant institutions and governance principles.

Background

An organizational governance system involves how decisionmaking, accountability, controls, and behaviors accomplish organizational objectives. For this report, we reviewed organizational governance at the highest levels, including the Board of Governors and their standing committees, as well as the Division Directors and their Executive Committee. We focused on select aspects of organizational governance, including structure; delegated roles and responsibilities, authorities, and decision rights; communication; and transparency. We have additional ongoing and planned work related to Board governance.

Recommendations, 2017-FMIC-B-020, December 11, 2017

The Board's Organizational Governance System Can Be Strengthened

Finding 1: Standing Committees Can Be More Effective by Clarifying and Regularly Reviewing Purposes, Roles and Responsibilities, Authorities, and Working Procedures

Number	Recommendation	Responsible office
1	Assess the Board's standing committee structure to determine whether the committees best serve the Board in conducting its work, update the structure as necessary, and document updates in the *Organization and Procedures* policy.	Board of Governors and Secretary of the Board
2	Develop committee charters for the Board's standing committees that include 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.	Standing committee chairs and relevant Division Directors
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.	Board of Governors and Secretary of the Board

Finding 2: The Board Could Better Prepare Governors for Their Roles by Enhancing the Orientation Program and Reviewing and Formalizing the Process for Selecting Dedicated Advisors

Number	Recommendation	Responsible office
4	Enhance and document the Governor orientation program to better prepare Governors for their roles and responsibilities, including but not limited to, 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.	Director of the Office of Board Members
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.	Director of the Office of Board Members

Finding 3: Communication With Governors Can Be Improved by Setting Clearer Communication Expectations and Exploring Additional Opportunities for Information Sharing Among Governors

Number	Recommendation	Responsible office
6	Determine Governors' information needs, both within and outside the committee structure, and communicate those to Board officials, including 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.	Standing committee chairs and administrators
7	Conduct a review of the requirements of the Sunshine Act and identify additional opportunities for Governors to share and discuss information as a quorum, including a. informal background discussions, such as regular meetings for Governors, that may clarify issues and expose varying views. b. discussions at luncheons or other gatherings that allow Governors to share information but do not determine or result in the joint conduct or disposition of official Board business.	General Counsel and Secretary of the Board, in consultation with the Board of Governors
8	Develop and document a framework for information sharing that will ensure compliance with the Sunshine Act. The framework should include a. a comprehensive overview of the Sunshine Act, including all requirements, exceptions, and review processes. b. specific opportunities for Governors to share and discuss information as identified in response to recommendation 7. c. a decisionmaking process for Governors to use in determining whether a gathering is subject to Sunshine Act requirements.	General Counsel and Secretary of the Board, in consultation with the Board of Governors

Finding 4: The Board Can Increase the Effectiveness of the COO and the Heads of the Administrative Functions by Reviewing, Communicating, and Reinforcing Expectations

Number	Recommendation	Responsible office
9	Ensure Board policy and structure align with the Board of Governors' expectations of the COO and the heads of the administrative functions and update the policy and structure as necessary. In doing so, the Board of Governors should consider whether the expectation of the specific function, the structural location of the positions, and the delegated responsibilities and authorities align.	Board of Governors
10	Communicate and reinforce the Board of Governors' expectations of the COO 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 a. holding periodic meetings with the COO 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.	Board of Governors
11	Implement processes to report on enterprisewide actions to ensure compliance with the policies created by the COO and the heads of the administrative functions.	COO and heads of the administrative functions

Finding 5: The Role of the Executive Committee Can Be Clarified by Establishing and Documenting Its Mission, Protocols, and Authorities

Number	Recommendation	Responsible office
12	Update the *Organization and Procedures* policy to include the Executive Committee as a consultative body and formally designate a committee chair.	Secretary of the Board, in consultation with the Board of Governors
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.	Chair of the Executive Committee
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.	Chair of the Executive Committee

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

MEMORANDUM

DATE: December 11, 2017

TO: Board of Governors

FROM: Mark Bialek
Inspector General

SUBJECT: OIG Report 2017-FMIC-B-020: *The Board's Organizational Governance System Can Be Strengthened*

We have completed our report on the subject evaluation. We conducted this evaluation to describe the Board of Governors of the Federal Reserve System's organizational governance structures and processes and assess the extent to which these structures and processes align with those of other relevant institutions and governance principles.

We provided you with a draft of our report for review and comment. In your response, you generally concur with our recommendations and identify the Board officials responsible for coordinating work on the recommendations and presenting options to the Board of Governors for your consideration and appropriate action. We have included your response as appendix E to our report.

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

cc: Donald V. Hammond, Chief Operating Officer, Office of the Chief Operating Officer
Ricardo Aguilera, Chief Financial Officer and Director, Division of Financial Management
Eric Belsky, Director, Division of Consumer and Community Affairs
Michell Clark, Director, Management Division
Matthew J. Eichner, Director, Division of Reserve Bank Operations and Payment Systems
Michael S. Gibson, Director, Division of Supervision and Regulation
Steven B. Kamin, Director, Division of International Finance
Thomas Laubach, Director, Division of Monetary Affairs
Andreas Lehnert, Director, Division of Financial Stability
Ann E. Misback, Secretary of the Board, Office of the Secretary
Sharon Mowry, Chief Information Officer and Director, Division of Information Technology
Michelle A. Smith, Assistant to the Board, Chief of Staff, and Director, Office of Board Members
Mark Van Der Weide, General Counsel, Legal Division
David Wilcox, Director, Division of Research and Statistics
Tina White, Manager, Compliance and Internal Control, Division of Financial Management

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Introduction

Objectives

An organizational governance system involves processes and structures for decisionmaking, accountability, controls, and behaviors designed to accomplish an organization's objectives.[1] We included the Board of Governors of the Federal Reserve System's (**Board**) organizational governance of enterprisewide administrative functions on our list of major management challenges—issues likely to hamper the Board's ability to accomplish its strategic objectives.[2] In several of our reports, we have noted governance issues at the Board, and the Board's strategic planning documents have recognized the importance of improving governance of its administrative functions.

Board—Federal agency serving as the main governing body of the Federal Reserve System and headed by the Board of Governors.

Board of Governors—Seven-member body, appointed by the President and with the advice and consent of the Senate, responsible for running the Board.

We conducted this evaluation (1) to describe the current state of the Board's organizational governance structures and processes and (2) to assess the extent to which these structures and processes align with those of other relevant institutions and governance principles. Based on the results of our work, we identified opportunities for the Board to strengthen its governance system.

We reviewed organizational governance at the highest levels, including the **Board of Governors**, Division Directors, and several of their respective committees. We focused on select aspects of organizational governance, including structure; delegated roles and responsibilities, authorities, and decision rights; communication; and transparency.

To address our first objective, we reviewed Board documents related to its governance system; interviewed current and former Governors, Division Directors, and other Board officials; reviewed delegations of roles and responsibilities, authorities, and decision rights related to certain administrative and operational functions; and analyzed the budget process to understand how organizational governance affects an enterprisewide administrative process.

To address our second objective, we reviewed documentation and interviewed officials from select central banks, prudential regulators, and Federal Reserve Banks; researched governance principles from central banking, governmental, academic, and other sources; and compared the Board's governance system with those of benchmark organizations and governance principles.

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1. Dean Bahrman, *Evaluating and Improving Organizational Governance*, The Institute of Internal Auditors Research Foundation, 2011.

2. Office of Inspector General, *2017 List of Major Management Challenges for the Board*, September 27, 2017.

This is our initial report on the Board's organizational governance. We have additional ongoing and planned work related to Board governance.

See appendix A for additional details on our scope and methodology. See appendix B for a glossary of terms used throughout this report.

Background

Organizational Governance

Strong governance systems help organizations efficiently and effectively meet their objectives. The variety of organizations—each with different purposes, cultures, and legal and regulatory requirements—means that no one governance system applies to all. As such, governance literature published by a variety of organizations often describes principles that can provide a basic framework for organizational governance. Some of these organizations include the Basel Committee on Banking Supervision, the Organisation for Economic Co-operation and Development, the Institute of Internal Auditors, and the U.S. Government Accountability Office (GAO). These principles include the importance of well-designed governance structures, clear roles and responsibilities, periodic reviews of organizational governance structures and processes, and committed leadership.

Legal and Regulatory Requirements Affecting the Board's Governance System

Three laws guide the Board's governance system.

The Federal Reserve Act

The Federal Reserve Act sets out the purposes, structure, and functions of the Federal Reserve System and outlines aspects of its operations and accountability.[3] It dictates that the Board of Governors, which guides the operation of the Federal Reserve System and oversees the Reserve Banks, comprises seven Governors who are nominated by the President and confirmed by the U.S. Senate for 14-year terms. It also requires that the President designate, with the advice and consent of the Senate, one Chair of the Board of Governors to serve as the active executive officer and one Vice Chair of the Board of Governors to serve in the absence of the Chair.

The Federal Reserve Act authorizes the Board of Governors to delegate most of its functions.[4] Some of these delegations occur through the Board's 2013 *Delegations of Administrative Authority* policy.

3. Federal Reserve Act of 1913, Pub. L. No. 63-43, 38 Stat. 251 (1913).

4. The Board of Governors may not delegate functions relating to rulemaking or pertaining principally to monetary and credit policies. 12 U.S.C. § 248(k).

The Dodd-Frank Wall Street Reform and Consumer Protection Act

Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in 2010 as a response to the financial crisis of 2008.[5] One purpose of the Dodd-Frank Act was to promote the financial stability of the United States by improving accountability and transparency in the financial system. It amended the Federal Reserve Act by requiring the President to designate, with the advice and consent of the U.S. Senate, a second Vice Chair, the Vice Chair for Supervision, to oversee the supervision and regulation of Board-supervised firms and to develop related policy recommendations.

The Government in the Sunshine Act

Congress enacted the Government in the Sunshine Act (Sunshine Act) based on the notion that "the public is entitled to the fullest practicable information regarding the decisionmaking processes of the Federal Government."[6] The act requires that "meetings of an agency" be open to the public unless 1 or more of 10 exemptions apply to close a meeting (see appendix C). The Sunshine Act applies to federal agencies headed by a collegial body composed of two or more individual agency members, a majority of whom are appointed by the President with the advice and consent of the Senate. A gathering of agency members constitutes a meeting (1) if a quorum of agency members is present and (2) deliberations determine or result in the joint conduct or disposition of official agency business. When both of these requirements are met, the agency must follow certain procedural steps, including public notification of the time, place, and subject of all open meetings and public notification of when a meeting will be closed. The Board's rule implementing the Sunshine Act may be found at 12 C.F.R. part 261b.

The Board's Governance System

At its highest levels, the Board developed three main governance structures to help conduct its work: the **standing committees** and **administrators**, the **Chief Operating Officer** (COO) and **heads of the administrative functions**, and the **Executive Committee**.

Standing Committees and Administrators

The Board of Governors has many responsibilities, including guiding monetary policy action, analyzing domestic and international economic and financial conditions, exercising broad

Standing committee—Committee or subcommittee comprising up to three Governors responsible for overseeing the Board's work.

Administrator—Governor assigned to oversee certain Board functions in lieu of a standing committee.

Administrators have the same responsibility and authority as a standing committee.

Chief Operating Officer—Division Director delegated responsibility for oversight of the Board's operations and resources. Oversees the administrative functions, including three divisions and two offices.

Heads of the administrative functions—Division Directors to whom the Chief Operating Officer has redelegated responsibility and authority for formulating, approving, and implementing policies for financial management, information technology and security, and management and human resources.

Executive Committee—Committee comprising all Division Directors and chaired by the Chief Operating Officer.

5. Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010).

6. Government in the Sunshine Act, Pub. L. No. 94-409, 90 Stat. 1241 (1976; codified at 5 U.S.C. § 552b).

supervisory control over the financial services industry, overseeing the nation's payment system, and overseeing the activities of the Federal Reserve Banks.

Much of the Board of Governors' decisionmaking is carried out in regular board meetings, through notation voting, or through delegations of authority.[7] The Board of Governors also established a committee structure to conduct its work more effectively.[8,9] The committee structure comprises seven standing committees and one standing subcommittee. Each standing committee consists of up to three Governors, one of whom serves as committee chair. The committees are not decisionmaking bodies.

> **Division—**Board functional unit comprising Board officials, including the Division Director, and Board staff.
>
> **Administrative Governor—**Governor assigned to chair the Committee on Board Affairs and delegated the authority to oversee day-to-day operations of the Board.

Five of the eight standing committees are responsible for overseeing relevant Board **divisions**.[10] In addition, the Chair of the Board of Governors designates individual Governors to serve as administrators of three of the Board's divisions. The administrators oversee the respective divisions' operations and exercise the responsibilities of a standing committee of the Board.[11,12]

The standing committees and administrator roles align with the Board's mission areas and support functions. These committees and administrators carry out functions, such as participating in formulating and presenting policy proposals to the full Board of Governors, for their respective areas of responsibility (see appendix D).

As the active executive officer, the Chair of the Board of Governors delegates to each Governor roles for serving on standing committees, as either a chair or a member, or serving as an administrator.[13] One

7. Certain decisions are delegated by the Board of Governors to an individual Governor, the Reserve Banks, or Board officials. 12 C.F.R. part 265.
8. This committee structure is documented in the Board's *Organization and Procedures* policy.
9. The Board conducts some routine business by notation vote, in which material circulates electronically among the Governors for written comment and vote. However, upon request by a Governor, any such item may be placed on the Board of Governors' agenda for discussion at a Board of Governors' meeting.
10. The Committee on Payments, Clearing, and Settlement; Subcommittee on Smaller Regional and Community Banking; and Committee on Financial Stability, all created in 2010 or later, do not oversee divisions. Rather, these committees focus on specific policy areas within certain divisions' areas of responsibility.
11. The Chair designates Governors to administer the Office of Board Members, Office of the Secretary, and the Legal Division. Per policy, the Chair retains oversight of these divisions, but in practice the administrators exercise day-to-day oversight.
12. The Office of Inspector General (OIG) is an independent and objective oversight authority established under the Inspector General Act of 1978, as amended. The OIG does not receive oversight from a committee or an administrator but reports to, and is under the general supervision of, the Board of Governors in matters that relate to the OIG's oversight of the Board and to the Director of the Consumer Financial Protection Bureau in matters that relate to the OIG's oversight of the Consumer Financial Protection Bureau.
13. Assignments are documented in the Board's *Board Member Committee Assignments* document, which the Chair updates as assignments change.

Governor is delegated the role of the Board's Administrative Governor, with authority to oversee day-to-day operations of the Board.

COO and Administrative Functions

The Administrative Governor redelegates responsibility for administrative oversight of the Board's operations and resources to the COO through the *Delegations of Administrative Authority* policy. The Board named its first COO in 2011 and created the Office of the Chief Operating Officer a year later. Although the COO position and office are recent creations, most of the duties and responsibilities associated with the COO have been centrally managed since the 1970s. This work has been done through different offices, including the Office of the Executive Director and, more recently, the Office of the Staff Director for Management.

The COO redelegates to the Director of the Management Division, the Chief Information Officer and Director of the Division of Information Technology, and the Chief Financial Officer (CFO) and Director of the Division of Financial Management the responsibility and authority for formulating, approving, and implementing policies in their respective areas of responsibility.

Executive Committee

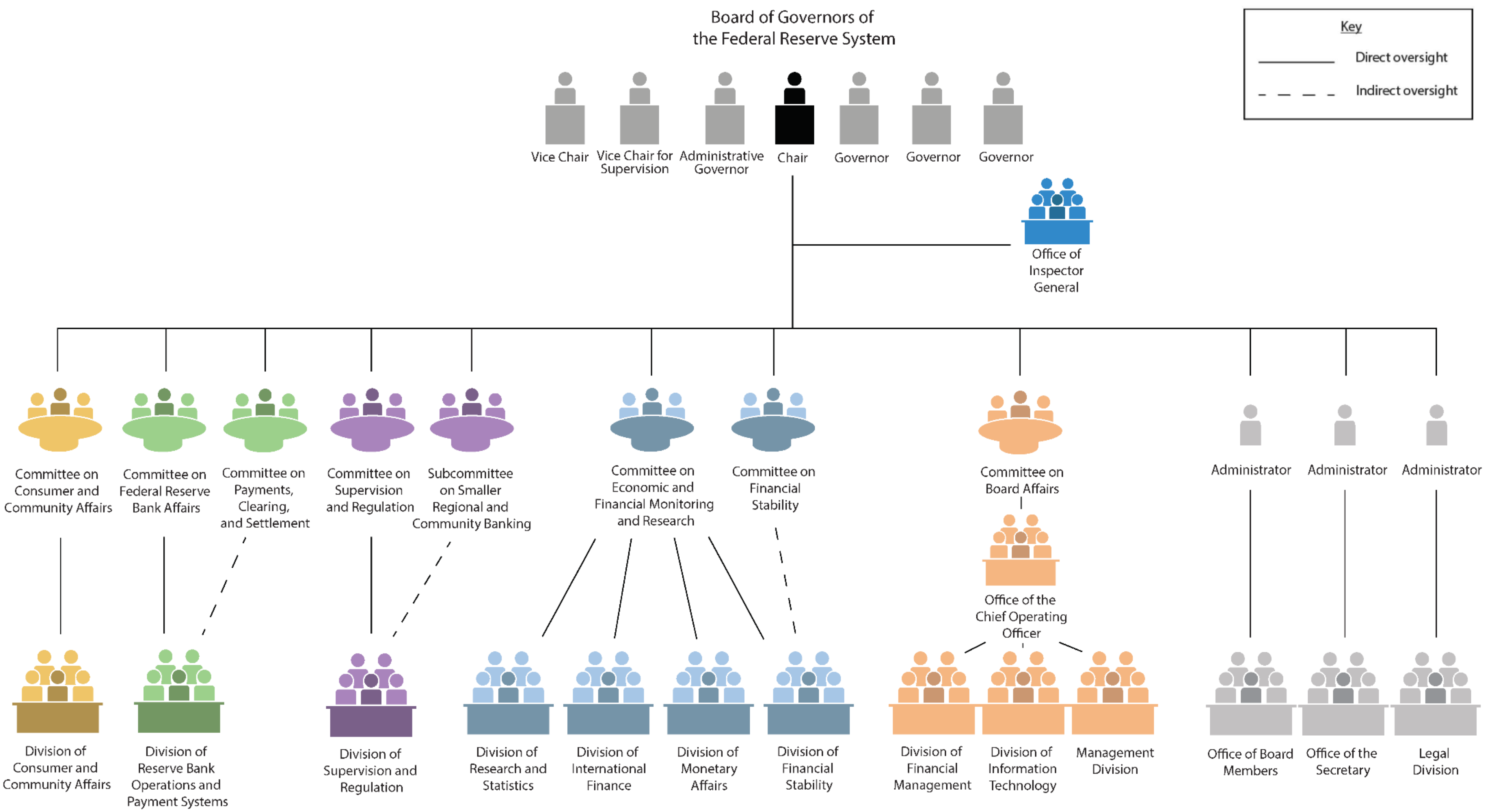
The Executive Committee is chaired by the COO and comprises all of the Board's Division Directors.[14] The Executive Committee is a forum for the Division Directors to discuss major administrative issues or concerns that affect the Board. The Executive Committee is not a decisionmaking body.

The Executive Committee also established a Senior Officer Committee comprising senior officers in each of the Board's divisions. The Senior Officer Committee is chartered to advise and assist the Executive Committee on matters including the planning, design, and implementation guidance for Boardwide initiatives; reviewing proposed changes to Board administrative policies or practices; enhancing management of Board resources; and raising division viewpoints and concerns.

Figure 1 illustrates the Board's governance structure.

14. Although the OIG is an independent and objective oversight body, it is considered a division of the Board, and the Inspector General serves as a member of the Executive Committee in the capacity of a Division Director.

Figure 1. The Board's Governance Structure



Source. Created by the OIG based on applicable laws and Board documents.

Finding 1: Standing Committees Can Be More Effective by Clarifying and Regularly Reviewing Purposes, Roles and Responsibilities, Authorities, and Working Procedures

The Board's standing committee structure helps the full Board of Governors fulfill specific responsibilities, but the committees' effectiveness can be strengthened by clarifying their purposes, roles and responsibilities, authorities, and working procedures and by assessing committee activity regularly. Codifying the committee expectations in committee charters and measuring committee activity against those expectations could help to ensure the committee structure continues to best serve the Board in carrying out its work.

Developing Standing Committee Charters Could Clarify Committee Purposes, Roles and Responsibilities, Authorities, and Working Procedures

Governance principles suggest that when committees of a board are established, their purposes, composition, roles and responsibilities, and working procedures should be well defined and disclosed and their written charters developed.[15,16]

The Board has defined and documented some, but not all, of this information (figure 2). The information that is documented is typically spread throughout multiple documents rather than being included in individual committee charters, is sometimes unclear, and lacks uniformity across committees. One of eight committees has developed a high-level written charter, but it does not include roles and responsibilities or working procedures.

15. Basel Committee on Banking Supervision, *Guidelines: Corporate governance principles for banks*, July 2015.

16. Dean Bahrman, *Evaluating and Improving Organizational Governance*, The Institute of Internal Auditors Research Foundation, 2011.

Figure 2. Board Standing Committee Available Information, June 2017

Committee	Purpose[a]	Composition[b]	Roles, responsibilities, and authorities[a]	Working procedures[c]
Board Affairs	●	●	◖	○
Consumer and Community Affairs	●	●	◖	○
Economic and Financial Monitoring and Research	●	●	◖	○
Financial Stability	○	●	○	○
Federal Reserve Bank Affairs	●	●	◖	●
Payments, Clearing, and Settlement	●	●	◖	●
Supervision and Regulation	●	●	◖	○
Smaller Regional and Community Banking (subcommittee)	●	●	◖	○

Source. OIG summary of Board documents and interviews.

Key: ● Defined ◖ Partially defined ○ Not defined

a. Included in the June 2017 *Organization and Procedures* policy.

b. Included in the April 2017 *Board Member Committee Assignments* document.

c. Working procedure document that is separate from charter or Board policy.

Specifically,

- Standing committee purposes are outlined in the Board's *Organization and Procedures* policy for seven of the eight standing committees. The eighth committee's purpose is not defined.
- Committee composition is documented in the *Board Member Committee Assignments* document for all eight standing committees.
- High-level responsibilities for seven of the eight standing committee chairs are documented in the *Organization and Procedures* policy. Although this policy mentions high-level responsibilities

of the chairs, it does not fully describe those responsibilities. For example, the policy does not explain that only chairs have decisionmaking authority or that chairs are responsible for evaluating performance of the respective Division Directors. Rather, this policy states that the full committee assumes responsibility for evaluating the performance of Board officials. In addition, the *Organization and Procedures* policy does not address the role of other committee members or the roles of Board officials involved in committee proceedings.

- The Board's *Organization and Procedures* policy states that standing committee chairs are responsible for establishing procedures for the organization and functioning of the committees and for developing programs for carrying out committee work. However, working procedures are not available for six of the eight standing committees. For the two remaining standing committees, committee secretaries, who are staff members of the division that supports those committees, developed working procedures in separate manuals and update them as they deem necessary. The working procedures include processes for annual schedule setting, agenda setting, premeeting briefings, and committee preparation. While this level of detail is not necessary for a charter, high-level working procedures in a charter would clarify committee procedures for all participants. Detailed manuals could be useful for committee secretaries to help administer the committee proceedings.

Governors and Board officials stated that standing committee purposes, procedures, and roles and responsibilities could be further clarified. For example, we heard that though certain standing committees have formal structures, there is little guidance regarding others. Some Governors added that this creates uncertainty in the purpose of that committee, as well as the Governors' role on it. Some Board officials also questioned the purposes of the committees, such as whether the committees are addressing the most important topics.

Multiple Governors also noted that Board culture creates additional uncertainty about the roles Governors are expected to serve in overseeing their respective divisions. The Division Directors are generally long-tenured staff, whereas Governors turn over fairly regularly.[17] Developing standing committee charters would codify the objectives of the committees and clarify the roles each member is expected to serve.

Most of our benchmark organizations document in charters committee purposes; composition; roles and responsibilities; and high-level working procedures, such as meeting logistics, as well as procedures for setting agendas and maintaining records. One organization developed a template for its committee charters to ensure all the organization's charters are consistent and address best practices. Other benchmark organizations disclose their board committee charters on their public website.

17. Despite the statutory 14-year term, Governors have served an average of 6.4 years since 2000.

Regularly Reviewing Committee Activity Should Help Ensure That Standing Committees Continue to Best Help the Board Carry Out Its Work

Leading practices suggest organizations periodically review their governance structure, including evaluating committees against their charters.[18,19,20]

The Board's *Organizational Changes* policy describes the process for organizational changes within individual divisions, including a review and approval process through the full Board of Governors, but the Board does not have a formal policy to initiate, review, or disband its standing committees. Since 2000, three standing committees have been created, all in 2010 or later, while none have been merged or disbanded. However, as noted above, some Governors and Board officials have questioned the role and effectiveness of some committees.

In addition, at least one of the Board's standing committees is inactive. Although the committee is inactive, the relevant Division Directors noted other forms of oversight that they received through the normal course of their work, as these divisions have frequent interactions with the Board of Governors. Reviewing committee activity would help ascertain whether each committee's objectives are being achieved, its function is being performed by another group, or its responsibilities need to be revised. In addition, regularly reviewing the committees against their charters can help ensure that the standing committee structure, activities, and oversight areas continue to best serve the Board in carrying out its work.

Multiple benchmark organizations conducted comprehensive reviews of their committee structures, which resulted in the restructuring of their committees. For example, one organization disbanded committees and built a new committee structure. Some of these organizations also established functional subcommittees to address enterprisewide functions, such as risk, human resources, and budget, that report up to a management committee.

Multiple organizations also implemented processes to review their committees' effectiveness regularly, including updating committee charters. The review periods range from once a year to every 3 years. One organization measures its committees' performance against the charter to ensure that each committee is achieving its objectives and refines the charters based on that review. Another organization requires in its charters a minimum number of committee meetings each year and tracks and publishes committee activity through a centralized location.

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18. Dean Bahrman, *Evaluating and Improving Organizational Governance*, The Institute of Internal Auditors Research Foundation, 2011.

19. International Federation of Accountants, *International Good Practice Guidance: Evaluating and Improving Governance in Organizations*, February 2009.

20. Basel Committee on Banking Supervision, *Guidelines: Corporate governance principles for banks*, July 2015.

Recommendations

We recommend that the Board of Governors and the Secretary of the Board

1. Assess the Board's standing committee structure to determine whether the committees best serve the Board in conducting its work, update the structure as necessary, and document updates in the *Organization and Procedures* policy.

We recommend that the standing committee chairs and the relevant Division Directors

2. Develop committee charters for the Board's standing committees that include

    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.

We recommend that the Board of Governors and the Secretary of the Board

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.

Management's Response

The Board of Governors generally concurs with our recommendations. Specifically, the Board of Governors states that the Director of the Office of the Secretary will coordinate work on these recommendations and present options to the Governors for their consideration and appropriate action.

OIG Comment

We believe that the planned approach described by the Board of Governors is responsive to our recommendations. We plan to follow up on the responsible office's actions to ensure that the recommendations are fully addressed.

Finding 2: The Board Could Better Prepare Governors for Their Roles by Enhancing the Orientation Program and Reviewing and Formalizing the Process for Selecting Dedicated Advisors

Although the Board's standing committees and administrators enable the Board of Governors to divide tasks and conduct its work, the Board could better prepare the Governors for their various roles. Enhancing the orientation program and reviewing and formalizing the process through which Governors select dedicated advisors can ease the transition when new Governors join the Board and help them carry out their various responsibilities once they assume their role.

Clearly Communicating New Governors' Roles and Responsibilities Could Help Ease Their Transition to the Board

Governance principles suggest that a thorough introduction of executives into their roles is important, especially with individuals of varying professional backgrounds.[21,22,23]

Governors' backgrounds are diverse, including academic, government, and private sector experience. In addition, Governors have various responsibilities once they join the Board, such as participating in monetary and other policy decisions and serving on standing committees, as administrators, or both. However, the Governors' current orientation does not include a full overview of their roles and responsibilities.

The Governors' onboarding begins when they are nominated by the President. Once they are nominated, the Office of Board Members, Office of the Secretary, and Legal Division prepare them for confirmation hearings, including updating them on issues facing the Federal Reserve System. The Office of the Secretary also coordinates briefings with the Board divisions to provide overviews of the divisions' functions and policy matters.

Once Governors are confirmed and join the Board, their orientation begins. In addition to the information Governors receive during onboarding, the Office of Board Members organizes meetings with various parties who introduce new Governors to various aspects of their responsibilities at the Board. For example, the Legal Division provides new Governors with an ethics and Sunshine Act overview, the

21. The Independent Commission on Good Governance in Public Services, *The Good Governance Standard for Public Services*, 2004.

22. Tim Armour, et al., *Commonsense Principles of Corporate Governance*, July 21, 2016.

23. Phyllis Palmiero, Institute for Effective Governance, "Best Practices in University Governance," Senate Finance Committee Roundtable Discussion, March 3, 2006.

Management Division provides a benefits and human resources overview, and the Chair of the Board of Governors discusses committee assignments.

The Governors' orientation, however, does not introduce them to their full set of roles and responsibilities. For example, Governors explained that they learn how committees function when they begin serving on those committees and that there is little guidance regarding Governors' duties for policy areas for which they are not responsible for oversight. Further, reference documents regarding Governors' various roles and responsibilities are relatively high level and not comprehensive. For example, as noted in the previous finding, the Board's *Organization and Procedures* policy does not fully address committee chair or member roles and responsibilities. Multiple Board officials indicated that developing additional reference documents for Governors, such as a roles and responsibilities checklist, could be beneficial.

Multiple Governors also noted that there is a significant learning curve when joining the Board. This is particularly important for the Board of Governors, because its composition changes fairly regularly. Since 2000, its composition has changed 36 times as Governors have joined or departed. Fifteen of those changes involved new Governors, the latest of which was the new Vice Chair for Supervision, who joined in October 2017. Further, the current Chair announced her resignation effective upon the swearing in of her successor. A current Governor was nominated in November 2017 as the next Chair. All told, this could mean a Board with five new Governors in quick succession (the Vice Chair for Supervision plus four vacant Governor positions). Division Directors and Board officials noted that roles and responsibilities of Governors could be clarified, as the Governors' level of involvement in division activities varies, depending on the people in those positions.

A more detailed orientation of Governors into their roles and responsibilities could help reduce their learning curve. Two of our benchmark organizations noted the value in a thorough orientation program for board members.

Reviewing and Formalizing the Process for Selecting Dedicated Advisors Could Help Governors With Their Responsibilities

Other prudential regulators run by boards or commissions dedicate multiple advisors to their board members or commissioners. Some regulators provide full-time positions, while others offer rotational opportunities to career staff. Division Directors explained that the Board recently instituted an advisor program after discussion with Governors and senior Board officials. Generally, each of the Governors has one advisor on rotation from one of the Board's divisions in addition to a dedicated executive assistant. Dedicated advisors are typically senior staff or Board officials. Governors can also call on individual staff members from Board divisions to assist on specific projects and issue areas. Nonetheless, some current Governors expressed interest in selecting additional dedicated advisors. Neither legal requirements nor internal guidance limit the use of dedicated advisors.

Several of our benchmark organizations noted pros and cons of dedicated advisors. Some benefits of dedicated advisors include assistance with board member workload, additional perspectives, and staff development. Potential drawbacks of dedicated advisors include losing the collegial atmosphere among board members, impeding communication with board members, and diminishing direct exposure of board members to staff. For example, one institution purposely does not provide board members with dedicated advisors; instead, board members are supported by a pool of staff that includes attorneys, assistants, or specialists with backgrounds that align with their business lines.

Reviewing and formalizing the process for Governors to obtain dedicated advisors could improve the advisor program. The process should outline options for Governors to obtain additional dedicated advisors. This would help Governors make an informed decision about the staffing model that would allow them to best manage their roles and responsibilities.

Recommendations

We recommend that the Director of the Office of Board Members

4. Enhance and document the Governor orientation program to better prepare Governors for their roles and responsibilities, including but not limited to,

    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.

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.

Management's Response

The Board of Governors generally concurs with our recommendations. Specifically, the Board of Governors states that the Director of the Office of Board Members will coordinate work on these recommendations and present options to the Governors for their consideration and appropriate action.

OIG Comment

We believe that the planned approach described by the Board of Governors is responsive to our recommendations. We plan to follow up on the responsible office's actions to ensure that the recommendations are fully addressed.

Finding 3: Communication With Governors Can Be Improved by Setting Clearer Communication Expectations and Exploring Additional Opportunities for Information Sharing Among Governors

The Board's standing committee structure creates overlap among Governors' areas of responsibility, thereby promoting increased information sharing among Governors. However, the Board faces communication challenges, some of which are complicated by its process for complying with the Sunshine Act. Establishing expectations for communication and identifying additional opportunities for information sharing within the requirements of the Sunshine Act can better facilitate open communication among Governors, Board officials, and staff.

Communication Expectations Can Be Clarified to Better Facilitate Information Sharing With Governors

Governance principles note the need for a board of directors to establish expectations for communication and for officials to provide the board of directors with the information it needs to carry out its responsibilities, supervise senior management, and assess the quality of senior management's performance.[24,25]

The Board's *Organization and Procedures* policy states that the chair of each standing committee is responsible for presenting to the Board of Governors matters within the committee's areas of responsibility and for keeping committee members—and, as appropriate, the Chair, Vice Chair, and other Governors—informed of developments relevant to the committee. Administrators are also likewise responsible for keeping the Chair, Vice Chair, and other Governors informed of developments in their respective areas.

The Board does not, however, have internal policies or guidance that sets clear expectations for communication among Governors and Board officials, within or outside the committee structure. Many Division Directors noted that they have regular, open communication with their respective committee chairs and administrators, but that the level of communication depends on individual preferences. Some Division Directors recognize that the Governors are busy and thus only present significant items to their respective committee chairs or administrators. Other Division Directors noted the desire to involve the

24. Basel Committee on Banking Supervision, *Guidelines: Corporate governance principles for banks*, July 2015.

25. W. Bradley Zehner II, PhD, "What Directors Need to Know," *Graziadio Business Review*, volume 3, issue 3, Pepperdine University, 2000.

Governors in the strategic direction of the division. As such, they tend to present more information to their respective committee chair or administrator.

Some Governors and Division Directors identified the importance of clear expectations for communication and noted instances in which Governors did not receive necessary information at the appropriate time. While some of these communication challenges may be a result of unclear expectations or an individual's unintentional omission, some may stem from the Board's organizational culture. Multiple Governors noted apprehension from Board officials to involve Governors in open discussions in which varying viewpoints or options are discussed. These communication practices can result in Governors' being unaware of certain activity. Division Directors and other Board officials can also miss opportunities to leverage the Governors' knowledge and experience by failing to include them in open discussions and decisionmaking processes.

Some of our benchmark organizations identified ways to facilitate open communication. One organization noted that official staff involve board members early in the decisionmaking process to obtain insights and feedback. Multiple organizations recognized the importance of setting a tone at the top regarding communication. Specifically, one organization emphasized institutionalizing a culture of inclusion among the board and officials, including communicating expectations regarding the board's role in strategic as well as operational decisions.

Exploring Additional Opportunities for Discussion Under the Sunshine Act Can Improve Communication Among Governors

Communication with Governors is further complicated by the Sunshine Act, which requires certain meetings of an agency to be open to the public. Under the Sunshine Act, a gathering of agency members constitutes a meeting (1) if a quorum of agency members is present and (2) deliberations determine or result in the joint conduct or disposition of official agency business.[26]

The Supreme Court and the legislative history of the Sunshine Act offer some clarity with regard to the definition of a meeting under the act. The Supreme Court determined that "background discussions that clarify issues and expose varying views" do not constitute a meeting under the Sunshine Act.[27]

A Senate report also identified situations that Congress believed would and would not constitute a meeting, stating that

> To be a meeting the discussion must be of some substance. Brief references to agency business where the commission members do not give serious attention to the matter do not constitute a meeting. A chance encounter where passing reference is made to agency business, such as setting a time or place for the agency heads to meet, would not be a meeting. A luncheon attended by a majority of the Commissioners would not be a

26. Government in the Sunshine Act, Pub. L. No. 94-409, 90 Stat. 1241 (1976).

27. *FCC v. ITT World Communications, Inc.*, 466 U.S. 463, 469 (1984) (citing S. Rep. No. 94-354, at 19).

> meeting subject to the bill simply because one Commissioner made a brief, casual remark about an agency matter which did not elicit substantial further comment.[28]

An Interpretive Guide to the Government in the Sunshine Act, Second Edition, states that although the definition of a meeting adopted in the Supreme Court's decision is now accepted doctrine relied on by agencies, its decision left open the precise circumstances in which agency members may or may not discuss issues in private, and federal agencies have noted the uncertainties this creates.[29]

The Board has established a robust process to ensure compliance with the Sunshine Act. Recognizing the ambiguity in what constitutes a meeting, the Board's approach to compliance limits the instances in which a quorum of Governors gathers. When they do gather, the General Counsel or Secretary of the Board will generally attend those gatherings to ensure compliance with the Sunshine Act. Governors and Division Directors noted that, outside of regularly scheduled briefings in which staff update Governors on routine topics, Governors rarely gather in groups constituting a quorum unless such gathering is a meeting, open or closed, under the Sunshine Act. Current Governors expressed a desire to hold more informal meetings to share information regarding their areas of responsibility or gather for lunch as a quorum in order to build relationships and share information across the full Board of Governors. Former Governors informed us that they previously held group lunches and were careful not to discuss agency business. We also learned that Governors have the option to hold Governors-only meetings, which can be leveraged to share information regularly.

Governors and Board officials have developed ways to work within the Board's process for complying with the Sunshine Act, such as by holding multiple discussions regarding the same subject, either in multiple small-group sessions or one-on-one conversations with each Governor. This limits open communication among the Governors, creates time inefficiencies, and increases the possibility that some information may not be communicated to the full Board of Governors. Although we recognize the importance of the Sunshine Act as it promotes transparency, exploring additional opportunities for discussions while still fully complying with the requirements of the Sunshine Act can improve communication among the Governors.

Challenges with the Sunshine Act are consistent with some of our benchmark organizations. We note, however, that one organization we interviewed specifically incorporates the Supreme Court's decision in *FCC v. ITT World Communications, Inc.*, into its Sunshine Act policy, stating that "informal background discussions among Board members and staff which clarify issues and expose varying views" do not meet the requirements of a meeting under the Sunshine Act.

Recommendations

We recommend that the standing committee chairs and the administrators

6. Determine Governors' information needs, both within and outside the committee structure, and communicate those to Board officials, including

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28. S. Rep. No. 94-354, at 18 (1974).

29. Richard K. Berg, Stephen H. Klitzman, and Gary J. Edles, *An Interpretive Guide to the Government in the Sunshine Act, Second Edition*, American Bar Association, 2005.

   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.

We recommend that the General Counsel and the Secretary of the Board, in consultation with the Board of Governors,

7. Conduct a review of the requirements of the Sunshine Act and identify additional opportunities for Governors to share and discuss information as a quorum, including

   a. informal background discussions, such as regular meetings for Governors, that may clarify issues and expose varying views.

   b. discussions at luncheons or other gatherings that allow Governors to share information but do not determine or result in the joint conduct or disposition of official Board business.

8. Develop and document a framework for information sharing that will ensure compliance with the Sunshine Act. The framework should include

   a. a comprehensive overview of the Sunshine Act, including all requirements, exceptions, and review processes.

   b. specific opportunities for Governors to share and discuss information as identified in response to recommendation 7.

   c. a decisionmaking process for Governors to use in determining whether a gathering is subject to Sunshine Act requirements.

Management's Response

The Board of Governors generally concurs with our recommendations. Specifically, the Board of Governors states that the Director of the Office of Board Members, the Secretary of the Board, and the Board's General Counsel will coordinate work on these recommendations and present options to the Governors for their consideration and appropriate action.

OIG Comment

We believe that the planned approach described by the Board of Governors is responsive to our recommendations. We plan to follow up on the responsible offices' actions to ensure that the recommendations are fully addressed.

Finding 4: The Board Can Increase the Effectiveness of the COO and the Heads of the Administrative Functions by Reviewing, Communicating, and Reinforcing Expectations

As noted in the Background section of this report, the Administrative Governor redelegates responsibility and authority for overseeing enterprisewide administrative functions to the COO and the heads of the administrative functions. However, the Board's decentralized structure and consensus-driven culture, as described by Board officials and Division Directors, create a gap between the perceived authority of the COO and the heads of the administrative functions and their delegated authority as defined in Board policy. This gap creates challenges in implementing enterprisewide administrative initiatives. The Board of Governors should help ensure that the roles and responsibilities of the COO and the heads of the administrative functions are clearly understood across the agency by (1) ensuring Board policy and structure align with the Board of Governors' expectations of these positions; (2) communicating and reinforcing its expectations of these positions to Board officials to set a strong tone at the top; and (3) implementing other tools as necessary, such as holding periodic meetings with the COO or the heads of the administrative functions.

The Roles of the COO and the Heads of the Administrative Functions Are Not Commonly Understood Due to the Board's Structure and Organizational Culture

GAO notes that centrally managing administrative activities helps to support enterprisewide initiatives and that a COO or similar position may effectively provide the continuing, focused attention essential to successfully implement enterprisewide initiatives. GAO also states that this is particularly important as high turnover among politically appointed leaders can make it difficult for an agency to follow through with lengthy initiatives.[30] GAO created a list of key strategies for implementing the COO position, which includes clearly defining and communicating the roles of the position and ensuring it has a high level of authority and clearly delineated reporting relationships.[31]

The Board's *Delegations of Administrative Authority* policy delegates to the COO and the heads of the administrative functions the responsibility and authority for formulation, approval, and implementation of various administrative policies. However, most Division Directors indicated that the delegated responsibilities, authorities, and decision rights of the COO and the heads of the administrative functions

30. U.S. Government Accountability Office, *The Chief Operating Officer Concept and its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, GAO-04-876R, June 28, 2004.

31. U.S. Government Accountability Office, *Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*, GAO-08-34, November 2007.

could be clarified or thought that the COO position had less authority than it did per Board policy. We attribute this lack of understanding to the Board's decentralized structure and what Board officials and Division Directors describe as a consensus-driven culture.

The Board has a decentralized structure in which divisions can often operate independently to achieve their objectives. The COO directly oversees two offices, similar to a traditional Division Director, as well as three administrative divisions, as a central point of authority over the administrative functions. Each of the other 11 Board divisions reports to either its respective standing committee, its administrator, or the full Board of Governors (refer to figure 1).

The Board's decentralized structure presents several challenges in implementing enterprisewide initiatives. First, the COO has authority to create binding policies for all divisions but does not always have mechanisms to ensure that those divisions comply with such policies. Second, the COO does not have a line of sight into the nonadministrative divisions and therefore may not know the extent to which these divisions are complying with policies. Third, two responsibilities compete for the COO's time: acting as a Division Director by managing two offices and also serving as a central authority overseeing all administrative functions.

Because the divisions often operate independently, the COO and the heads of the administrative functions are challenged to implement enterprisewide administrative initiatives when some Division Directors are not in agreement. This is driven in part by attempts to reach consensus before implementing enterprisewide initiatives. There is also a reported perception that the COO's role is more of a consensus builder, or first among equals, than a final authority on enterprisewide administrative matters. Enterprisewide decisions may be further complicated by Board officials' hesitancy to exercise their delegated authority.

Based on the results of our work, we also noted that other Board officials responsible for enterprisewide administrative functions may not be as visible within the Board's organizational structure. For example, the Chief Human Capital Officer (CHCO) is an officer within the Management Division, two levels below the Division Director.[32] Although the CHCO is responsible for overseeing the Board's personnel management, the Director of the Management Division is delegated the responsibility and authority for formulation, approval, and implementation of policies for enterprisewide personnel management. Further, authority for formulation and approval of management policies relating to diversity and inclusion in the Board's workforce has been delegated to the position of the Program Director for the Office of Diversity and Inclusion, which reports directly to the COO. When creating these policies, the Program Director for the Office of Diversity and Inclusion is required to consult with the Director of the Management Division (as appropriate), but not the CHCO. These relationships require ongoing coordination to be effective.

Further, the Board has not implemented an effective risk management structure. Risk management is delegated to the Division of Financial Management, specifically the CFO, who hired a senior adviser to

32. Before 1998, the CHCO headed the Board's Division of Human Resources Management. In 1998, with the retirements of the Directors of the Division of Human Resources Management and the Office of the Controller, the functions were merged into the Management Division, which was led by the Staff Director for Management. In 2012, along with the creation of the Office of the COO, the Board created the Division of Financial Management, reestablishing the CFO as an independent Division Director.

provide expert analysis and advice and oversee the design and implementation of an enterprise risk management program. As the enterprise risk management program is further defined, the organizational structure will need to be taken into consideration. The organizational placement of these human capital and risk management positions, coupled with the limited level of authority delegated to these positions, could hamper their ability to implement enterprisewide administrative initiatives.

The Board's decentralized structure and the drive to achieve consensus regarding its enterprisewide administrative decisions create the gap between the *delegated* authority of the COO and the heads of the administrative functions to create and implement enterprisewide policies and their *perceived* authority by other Division Directors.

The COO and the Heads of the Administrative Functions Have Limited Ability to Implement Enterprisewide Initiatives

Because other Division Directors may perceive the COO and administrative function heads to have less authority than they actually do per Board policy, the COO and administrative function heads have met resistance when exercising their delegated authority. If Division Directors do not agree with a decision made by the COO or the heads of the administrative functions, they may lobby their committee chair or administrator, opt not to participate in the initiative, or delay participation to slow the initiative. This gap between delegated and perceived authority has led to challenges with implementing enterprisewide initiatives, policies, or processes related to (1) enterprise risk management, (2) information security and technology, and (3) human capital.

Enterprise Risk Management

The *Delegations of Administrative Authority* policy delegates to the CFO the responsibility and authority for formulating, approving, and implementing the Board's risk management policies, operations, and resources. The Board has attempted to implement enterprise risk management processes as early as 2004 without success. In addition, we recommended in 2013 that the Board establish an agencywide process for maintaining and monitoring administrative internal control.[33] This recommendation remains open. Although the Board has not successfully implemented an enterprise risk management process in the past, there is an effort to do so currently underway. Nonetheless, the Board may continue to be challenged to implement enterprise risk management by the fact that the Board delegates these activities to the CFO position, which is also tasked with providing financial services and overseeing strategic planning, rather than identifying a Chief Risk Officer or equivalent function focused on formulating and implementing risk management policies.

Information Security and Technology

The *Delegations of Administrative Authority* policy delegates to the Chief Information Officer the responsibility and authority for formulating, approving, and implementing management policies for information technology and security. We reported in our 2017 *Audit of the Board's Information Security*

33. Office of Inspector General, *The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control*, OIG Report 2013-AE-B-013, September 5, 2013.

Program that the decentralization of information technology services contributes to the Board having an incomplete view of risks affecting its security posture and impedes its ability to implement an effective information security program.[34,35]

Human Capital

The *Delegations of Administrative Authority* policy delegates to the Director of the Management Division the responsibility and authority for formulation, approval, and implementation of the management policies for personnel management, and delegates to the CHCO the responsibility and authority for administrative oversight of the Board's operations and resources related to personnel management. We noted in our major management challenges that the Board faces challenges in developing and implementing an enterprisewide strategic workforce-planning program. A key part of workforce planning is to develop a succession plan to ensure continuity of knowledge and leadership and to identify and develop a diverse pool of talent for senior management positions. The Board's human capital function previously attempted to roll out an enterprisewide succession-planning process, with varying degrees of interest and engagement across the Board. Some divisions have created development plans, some have had preliminary meetings around succession planning, and others have not used the process due to resource constraints. The CHCO may face challenges in overseeing the implementation of a succession planning process and will need the active support of the Director of the Management Division and the COO.[36]

Certain Tools Can Enhance the COO's and the Heads of the Administrative Functions' Ability to Manage Enterprisewide Administrative Functions

Setting, communicating, and reinforcing enterprisewide expectations, and ensuring Board policy and structure appropriately align with the Board of Governors' expectations of the COO and the heads of the administrative functions, would help to ensure that these positions can effectively carry out their delegated roles and responsibilities. Given that the Board's challenges in implementing enterprisewide functions are caused by a combination of the Board's structure and culture, the Board should consider approaches that address a combination of these factors, not just one. During our benchmarking, we identified certain measures that should improve the ability of the COO and the heads of the administrative functions to implement enterprisewide administrative policies and processes.

Three benchmark organizations specifically noted the importance of setting a consistent tone at the top, including emphasizing throughout the organization the importance of certain enterprisewide functions. Some of these organizations noted the importance of cultural change and focusing on enterprisewide needs rather than individual business needs. One organization updated its performance management

34. Office of Inspector General, *2017 Audit of the Board's Information Security Program*, OIG Report 2017-IT-B-018, October 31, 2017.

35. We have an ongoing evaluation of the organizational structure and authorities of the Board's information technology function.

36. We have an ongoing evaluation of the Board's workforce planning efforts.

system to reflect this enterprisewide focus, including an accountability behavior that is designed to help create a team culture and encourage employees to have difficult conversations.

Another organization recognizes that unanimity is not always necessary when making decisions and notes the importance of transparency in those decisionmaking processes. That organization also noted that a minority opinion should not be allowed to stop or stall enterprisewide initiatives after concerns have been vetted.

Some organizations have strengthened their COO position by having it report directly to the chair or full board or by having the COO hold regular meetings with the full board. Some organizations have created COO-like positions in their divisions to obtain buy-in and help facilitate enterprisewide functions. Several organizations designated their CHCO as a Division Director and created chief risk officers, risk management program offices, or risk committees to manage enterprise risk.

Implementing certain changes has helped the Board to streamline one enterprisewide process: preparing the annual budget. Although the Board has faced challenges in efficiently and effectively preparing its annual budget, Division Directors noted that the Board made improvements to this process in recent years and identified certain governance practices that aided in those improvements. First, the full Board of Governors set expectations early in the budget cycle for the target growth rate, which helped establish a unified, strong tone at the top, making it difficult for Division Directors to lobby their respective standing committee or administrator. Second, divisions were grouped into functional areas and the Division Directors were instructed to work together to allocate resources within those functional areas. This helped to create a sense of accountability among Division Directors and demonstrated that tradeoffs needed to be made to ensure that the Board met its budgetary goals. We heard from Division Directors and Board officials that these changes significantly improved the process and that the Board should take additional steps, such as determining who should have the authority to reduce budgets for individual functions or divisions.[37] Given this feedback, the Board of Governors should consider implementing similar governance changes over other enterprisewide administrative processes, and the Board of Governors should also consider the additional improvements suggested, such as determining ultimate authority for certain decisions.[38]

Recommendations

We recommend that the Board of Governors

9. Ensure Board policy and structure align with the Board of Governors' expectations of the COO and the heads of the administrative functions and update the policy and structure as necessary. In doing so, the Board of Governors should consider whether the expectation of the specific

37. In addition to effects of governance on the Board's budget process, we were informed of specific budget formulation and execution challenges during our interviews. We plan to initiate an audit on the Board's budget process in 2018.

38. The Board is also currently evaluating changes that it should make in its voluntary response to OMB 17-22, *Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce*, April 12, 2017. Specifically, it is reviewing existing functions and operations of all divisions for opportunities to reduce redundancies and improve efficiency and effectiveness without increasing ongoing cost.

function, the structural location of the positions, and the delegated responsibilities and authorities align.

10. Communicate and reinforce the Board of Governors' expectations of the COO 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
    a. holding periodic meetings with the COO 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.

We recommend that the COO and the heads of the administrative functions

11. Implement processes to report on enterprisewide actions to ensure compliance with the policies created by the COO and the heads of the administrative functions.

Management's Response

The Board of Governors generally concurs with our recommendations. Specifically, the Board of Governors states that the COO will coordinate work on these recommendations and present options to the Governors for their consideration and appropriate action.

OIG Comment

We believe that the planned approach described by the Board of Governors is responsive to our recommendations. We plan to follow up on the responsible office's actions to ensure that the recommendations are fully addressed.

Finding 5: The Role of the Executive Committee Can Be Clarified by Establishing and Documenting Its Mission, Protocols, and Authorities

The Board established an Executive Committee that facilitates discussions of enterprisewide activities among all Division Directors. The Executive Committee also recognized a need for a subcommittee to advise and assist with certain matters and therefore created the Senior Officer Committee. Nonetheless, the Board can enhance the effectiveness of the Executive Committee by clarifying and documenting the committee's purpose, roles and responsibilities, and authorities. For example, documenting this information in a charter could help assess whether the committee is achieving desired outcomes. Communicating this information could help the COO and heads of administrative functions overcome some of the challenges they face.

Creating a Committee Charter Could Codify a Framework to Achieve the Committee's Mission and Align Expectations of All Participants

Governance principles suggest that a committee's mandate, composition, and working procedures should be well defined and disclosed and that written charters should be developed.[39,40,41] Although the Executive Committee developed a charter describing the Senior Officer Committee's purpose, composition, roles and responsibilities, and general working procedures, the Executive Committee does not have such a charter. Further, the Executive Committee is not established in Board policy.

Division Directors noted that the role of the Executive Committee is not clear, and they provided varying views of the Executive Committee's purpose. Some stated that it is a forum for discussion, while others believed that it is intended to build consensus or make decisions. Some Division Directors also indicated that the Executive Committee should focus on strategic, enterprisewide discussions.

Division Directors stated that transparency around the actions taken following Executive Committee meetings can be improved. Although the Executive Committee is not a decisionmaking body, the Executive Committee discusses major administrative issues or concerns that affect the Board and inform actions taken subsequent to committee discussions. Some Division Directors noted that they do not have visibility into how decisions are made subsequent to Executive Committee meetings and, at times, their recollections of what was communicated at the meetings was inconsistent with those decisions. This lack

39. Basel Committee on Banking Supervision, *Guidelines: Corporate governance principles for banks*, July 2015.

40. Dean Bahrman, *Evaluating and Improving Organizational Governance*, The Institute of Internal Auditors Research Foundation, 2011.

41. The Independent Commission on Good Governance in Public Services, *The Good Governance Standard for Public Services*, 2004.

of consistency can be particularly challenging when Executive Committee members do not agree with certain decisions, as the lack of buy-in or rationale behind decisions can exacerbate the challenges the Board faces in implementing enterprisewide administrative processes.

Defining the Executive Committee's purpose, composition, roles and responsibilities, authorities, and working procedures would set expectations around the role of the Executive Committee. Documenting those expectations in a charter codifies a framework for the committee to accomplish a clear mission. In addition, communicating who has decisionmaking authority and the rationale behind certain decisions resulting from committee discussions can further improve understanding of outcomes and increase Division Directors' buy-in for enterprisewide administrative initiatives. Increasing buy-in on enterprisewide initiatives can help alleviate challenges the Board faces in implementing its administrative functions.

Many of our benchmark organizations use their executive committees or equivalents to focus on policy implementation, risk management, strategic initiatives, and culture. These committees' key principles, such as committee purpose, roles and responsibilities, and composition, are documented in committee charters. One organization specifically noted the benefit of an executive committee for enterprisewide collaboration but emphasized the importance of having clear roles and responsibilities and decisionmaking authorities. As noted in the previous finding, another organization recognizes that consensus is not always necessary, and that clear roles and responsibilities and transparency in the decisionmaking process are extremely important. Many of the benchmark organizations' executive committees regularly evaluate their performance against their charters and update the charters as necessary.

Recommendations

We recommend that the Secretary of the Board, in consultation with the Board of Governors,

12. Update the *Organization and Procedures* policy to include the Executive Committee as a consultative body and formally designate a committee chair.

We recommend that the Chair of the Executive Committee

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.

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.

Management's Response

The Board of Governors generally concurs with our recommendations. Specifically, the Board of Governors stated that the Secretary of the Board and the COO will coordinate work on these recommendations and present options to the Governors for their consideration and appropriate action.

OIG Comment

We believe that the planned approach described by the Board of Governors is responsive to our recommendations. We plan to follow up on the responsible offices' actions to ensure that the recommendations are fully addressed.

Appendix A: Scope and Methodology

Our scope for this project was the Board's organizational governance at the highest levels, including the Board of Governors and its standing committees, as well as the Division Directors and their Executive Committee. The areas of organizational governance that we considered were (1) the organizational structure; (2) delegations of responsibility, authorities, and decision rights; (3) communication; and (4) transparency.

Our first objective was to describe the Board's organizational governance structures and processes. To address this, we

- reviewed all known, relevant, and available Board governance-related documents, including
    - laws and regulations that directly guide the Board's system of governance, including the Federal Reserve Act, the Dodd-Frank Act, the Sunshine Act, the *Code of Federal Regulations*, and the *Federal Register*
    - internal policies, procedures, and organization charts
    - committee charters, agendas, meeting summaries, and schedules for certain committees
    - strategic planning documents, including the *Strategic Framework 2012–15*, *Strategic Plan 2016–19,* and the *102nd Annual Report*
    - the Board's Sunshine Act compliance webpage
    - OIG reports that considered Board governance structures
    - various other pages from the Board's public and internal websites that discussed Board transparency, history, and governance structures
- interviewed 10 current and former Governors; 16 current and former Division Directors, including 2 COOs;[42] and select Board officials and staff from the Legal Division, the Office of the Secretary, the Office of the Chief Data Officer, the Office of Diversity and Inclusion, and the Management Division, to discuss governance topics including
    - roles, responsibilities, authorities, and delegations to Governors, standing committees of the Board, Division Directors including the COO, the Executive Committee, and the Senior Officer Committee

42. We held discussions with Division Directors from all of the Board's divisions to gain their perceptions regarding the Board's organizational governance, with the exception of the OIG. We did not include the OIG in the scope of the evaluation to maintain our independence; however, we used the results of prior OIG work to inform our work.

- their experience with the budget process
- the history of the Board's governance structure
- communication practices at the Board, including the Board's process for compliance with the Sunshine Act
- their overall impression of Board governance

- reviewed delegations of roles, responsibilities, authorities, and decision rights related to certain administrative functions, including information technology and human resources, in the Board's *Delegations of Administrative Authority* policy
- reviewed operational delegations of roles, responsibilities, authorities, and decision rights (for example, supervision and regulation of financial institutions), including title 12, section 265 of the *Code of Federal Regulations* and a list of internal delegations made by the Board
- sought to understand how governance affects enterprisewide administrative processes, specifically the budget process, which has presented challenges to the Board, by attending the 2017 Planning and Budget Process Kickoff Meeting hosted by the Division of Financial Management and by reviewing the following documents:
    - enterprisewide policies that addressed the budget process, such as the *Delegations of Administrative Authority* and *Organization and Procedures* policies
    - the *2015 Budget as Approved by the Board*
    - the budget process narrative outlined in the Board's *102nd Annual Report*
    - operating and capital budget guidance promulgated by the Division of Financial Management
    - official staff statements about budget roles and responsibilities and recent changes made to the budget process

Our second objective was to assess the extent to which these structures and processes align with those of other relevant institutions and governance principles. To address this, we

- reviewed public websites and interviewed officials from a range of organizations, including[43]
    - central banks: Bank of England, Bank of Canada, European Central Bank, and Bank of France
    - prudential regulators: the Federal Deposit Insurance Corporation, the U.S. Securities

43. We note that all organizations' structures are unique and identified both similarities and differences between benchmarking organizations and the Board. Some of the benchmarking organizations have boards of directors that include external appointees, more similar to a private institution's board of directors; others have only politically appointed members. Additionally, some of the organizations use board committees focused on mission-based or function-based initiatives, or a combination of both, while others do not use committees of the board.

and Exchange Commission, the U.S. Commodity Futures Trading Commission, and the Office of the Comptroller of the Currency

  - the Federal Reserve Banks of New York, San Francisco, and Boston

- researched governance principles from a variety of sources, including but not limited to,

  - central banking and government publications by the Basel Committee on Banking Supervision, the Organisation for Economic Co-operation and Development, and GAO

  - academic publications from the Institute for Effective Governance and Pepperdine University

  - other publications by The Institute of Internal Auditors and The Independent Commission on Good Governance in Public Services

- compared the benchmark organizations' governance systems and governance principles to the Board's and identified notable practices.

There are many different organizational governance aspects of an organization that can be reviewed. Based on our preliminary work, we chose to exclude aspects of governance from our scope, including (1) governance within the individual divisions and other parts of the Federal Reserve System, (2) ethics, (3) compliance, and (4) performance planning and reporting.

We conducted our fieldwork from October 2016 through July 2017. We performed our evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

Appendix B: Glossary of Terms

administrator—Governor assigned to oversee certain Board functions in lieu of a standing committee. Administrators have the same responsibility and authority as a standing committee.

Administrative Governor—Governor assigned to chair the Committee on Board Affairs and delegated the authority to oversee day-to-day operations of the Board.

Board—Federal agency serving as the main governing body of the Federal Reserve System and headed by the Board of Governors.

Board of Governors—Seven-member body, appointed by the President and with the advice and consent of the Senate, responsible for running the Board.

COO—Division director delegated responsibility for oversight of the Board's operations and resources. Oversees the administrative functions, including three divisions and two offices.

division—Board functional unit comprising Board officials, including the Division Director, and Board staff.

Executive Committee—Committee comprising all Division Directors and chaired by the COO.

heads of the administrative functions—Division Directors to whom the COO has redelegated responsibility and authority for formulating, approving, and implementing policies for financial management, information technology and security, and management and human resources.

standing committee—Committee or subcommittee comprising up to three Governors responsible for overseeing the Board's work.

Appendix C: Government in the Sunshine Act Exemptions

Although the Sunshine Act generally requires all “meetings of an agency” to be made public, there are 10 exemptions under which a meeting may be closed to the public:

1. meetings that disclose matters authorized under Executive Order to be kept secret in the interests of national defense or foreign policy
2. meetings that relate solely to the internal personnel rules and practices of an agency
3. meetings that disclose matters specifically exempted from disclosure by statute
4. meetings that disclose trade secrets and commercial or financial information obtained from a person that is privileged or confidential
5. meetings that involve accusing any person of a crime or censuring any person
6. meetings that disclose information of a personal nature where disclosure would constitute an invasion of personal privacy
7. meetings that disclose investigatory records compiled for law enforcement purposes
8. meetings that disclose information contained in or related to examination, operating, or condition reports prepared for or used by an agency responsible for regulation or supervision of financial institutions
9. meetings that disclose information the premature disclosure of which would be likely to (i) lead to significant speculation in currencies or commodities, (ii) significantly endanger the stability of any financial institution, or (iii) significantly frustrate implementation of a proposed agency action
10. meetings that specifically concern the agency’s issuance of a subpoena or participation in a civil action or proceeding[44]

For an agency to close a meeting, the agency must determine that the subject matter of the meeting (or a portion of the meeting) is likely to fall within 1 of the 10 enumerated exemptions and that public interest does not require the meeting to be open.

44. 5 U.S.C. § 552b(c) (2017).

Appendix D: The Board's Standing Committees and Relevant Divisions

Committee on Board Affairs—The Committee on Board Affairs is responsible for the Board's planning and budgetary process, monitors the budget, and provides planning guidance when appropriate. The standing committee also oversees the COO and the divisions the COO oversees: the Management Division, the Division of Financial Management, and the Division of Information Technology.

- *Office of the Chief Operating Officer*—The Office of the Chief Operating Officer works with all Division Directors to establish, implement, and measure performance against the Board's strategic direction and provides analysis and counsel to the Administrative Governor regarding the overall operation of the Board's administrative functions, technology services, and short- and long-term strategic planning goals.
- *Management Division*—The Management Division provides the full spectrum of personnel management, facility, and logistical support for the Board's day-to-day operations, including managing office space and property and providing food services and physical security. The division also provides continuity-of-operations services and business-resumption services.
- *Division of Financial Management*—The Division of Financial Management is responsible for providing effective financial and risk management activities across the organization, including (1) overseeing implementation of the recommendations resulting from the ongoing strategic planning effort and (2) ensuring that the investment requirements outlined in the strategic plan are aligned with the Board's budget process.
- *Division of Information Technology*—The Division of Information Technology provides infrastructure support to all Board divisions, including mainframe operations and distributed processing, applications development, central automation and telecommunication support, data and communications security, local area network administration, and technology reviews of all Board functions.

Committee on Consumer and Community Affairs—The Committee on Consumer and Community Affairs is responsible for regulations dealing with consumer issues, consumer affairs enforcement and education programs, urban and neighborhood issues and problems, Community Reinvestment Act issues, and general oversight of the Federal Reserve System's community affairs program. The standing committee oversees the Division of Consumer and Community Affairs.

- *Division of Consumer and Community Affairs*—The Division of Consumer and Community Affairs informs the Board on the concerns of consumers and communities and coordinates the Federal Reserve System's consumer compliance supervision and examination activities, including policy development and examiner training. The division also conducts consumer-focused research and policy analysis, implements requirements for consumer protection statutes, and promotes community development in traditionally underserved neighborhoods.

Committee on Economic and Financial Monitoring and Research—The Committee on Economic and Financial Monitoring and Research is responsible for domestic and international research; statistical activities; relations with national and international organizations dealing with economic policy affairs; and reporting recordkeeping and disclosure burdens arising from statistical programs. The standing committee oversees the Division of Financial Stability, the Division of International Finance, the Division of Monetary Affairs, and the Division of Research and Statistics.

- *Division of Financial Stability*—The Division of Financial Stability is responsible for identifying and analyzing risks to financial stability and evaluating macroprudential policy responses to those risks. To fulfill this responsibility, the division conducts an active research and analysis program and monitors financial institutions, markets, and infrastructure to assess potential risks and structural vulnerabilities.
- *Division of International Finance*—The Division of International Finance focuses on the global economy and provides the Board, the Federal Open Market Committee, and other Federal Reserve System officials with assessments of current and prospective international, economic, and financial developments. The division evaluates and forecasts major economic and financial developments abroad, developments in foreign exchange and other international asset markets, and U.S. international transactions.
- *Division of Monetary Affairs*—The Division of Monetary Affairs supports the Board and the Federal Open Market Committee in the formulation of U.S. monetary policy and on matters pertaining to financial stability.
- *Division of Research and Statistics*—The Division of Research and Statistics focuses on the domestic economy. It provides the Board, the Federal Open Market Committee, and other Federal Reserve System officials with analysis and research pertaining to current and prospective economic conditions and supplies data and analyses for public use. The division also provides analysis and research pertaining to supervision and regulation, payment system policy and oversight, and consumer affairs.

Committee on Financial Stability—The Committee on Financial Stability is responsible for research on financial stability, assessment of vulnerabilities in the financial system, and assessment of policies to strengthen financial stability. The standing committee does not oversee any divisions but supports the Division of Financial Stability's operations.

Committee on Federal Reserve Bank Affairs—The Committee on Federal Reserve Bank Affairs is responsible for general oversight of the Federal Reserve Banks' strategies, operations, significant programs, and initiatives and oversight of the Federal Reserve System's annual currency budget and the Board's currency-related responsibilities. The standing committee oversees the Division of Reserve Bank Operations and Payment Systems.

- *Division of Reserve Bank Operations and Payment Systems*—The Division of Reserve Bank Operations and Payment Systems oversees the Federal Reserve Banks' provision of financial services to depository institutions, fiscal agency services to the U.S. Department of the Treasury and other entities, and emergency liquidity facilities. The division also has oversight responsibility for Federal Reserve Bank support functions. In addition, it develops and recommends to the Board of Governors policies and regulations governing payment, clearing, and settlement systems; works collaboratively with other central banks and market regulators to set standards to promote the safety and efficiency of payment, clearing, and settlement systems globally; and conducts research regarding payment and settlement matters.

Committee on Payments, Clearing, and Settlement—The Committee on Payments, Clearing, and Settlement is responsible for supervision and regulation of select financial market utilities, including coordination with other federal agencies; promulgation of regulations related to payment, clearing, and settlement; and supervision of the Federal Reserve Banks' wholesale payment services. This standing committee does not oversee any divisions but addresses part of the operations of the Division of Reserve Bank Operations and Payment Systems.

Committee on Supervision and Regulation—The Committee on Supervision and Regulation is responsible for the development, review, and maintenance of certain regulations authorized by law to be administered by the Board, direction of interdivisional staff work on market and regulatory policy development, bank and bank holding company supervision, and international banking supervision. The standing committee oversees the Division of Supervision and Regulation.

- *Division of Supervision and Regulation*—The Division of Supervision and Regulation is responsible for informing the Board of Governors on current and anticipated developments in bank supervision and banking structure. The division also coordinates and directs the Federal Reserve System's bank supervision and examination activities; in this role, the division develops and ensures implementation of policy for these activities, and it develops requirements for data collection, supervisory automated systems and related technology, and training. The division also had a leading role in the implementation of Dodd-Frank Act provisions across the Federal Reserve System and processes applications for prior consent to form or to expand bank holding companies or make other changes in banking structure.

Subcommittee on Smaller Regional and Community Banking—The Subcommittee on Smaller Regional and Community Banking is responsible for oversight of supervisory matters regarding community and smaller regional banks and the review of policy proposals to better understand the potential effect on smaller institutions. This is a standing subcommittee of the Committee on Supervision and Regulation and does not oversee any divisions but addresses part of the operations of the Division of Supervision and Regulation.

Administrators—The three administrators are responsible for operational oversight and evaluation in their respective areas of responsibility. These Governors oversee the Legal Division, the Office of Board Members, and the Office of the Secretary.

- *Legal Division*—The Legal Division provides legal advice and services to the Board to meet its responsibilities in all aspects of its duties, including the Board's bank supervisory and regulatory responsibilities. The division also provides legal support for the Board's role in developing and implementing monetary policy; employing its financial stability tools; and all aspects of the Board's operations, including the Board's procurement and personnel functions, ethics, and information disclosure. The division represents the Board in litigation in federal and state court and pursues enforcement actions against individuals and companies over which the Board has supervisory authority. The division also drafts regulations and proposes statutory changes to advance the Board's mission.

- *Office of Board Members*—The Office of Board Members, including the seven Governors, provides overview, direction, and supervision for Federal Reserve System goals, objectives, and projects involving monetary policy, supervision and regulation policy, and managerial policy. Within the office, the public affairs unit provides the public with information concerning Federal Reserve System actions and works to increase the public's understanding of the Federal Reserve System's functions, responsibilities, and policy goals. The congressional liaison program facilitates effective communication between the Board and Congress and other government agencies.

- *Office of the Secretary*—The Office of the Secretary provides corporate secretary and governmental services to Governors, Board staff, and the public. The division manages Board records management; oversees Board of Governors' meetings, agendas, minutes, and notation voting summaries; and administers the Freedom of Information Act program. The division also acts as the Board's Ombudsman.

Board of Governors—The full Board of Governors provides general supervision to the OIG in matters that relate to the OIG's oversight of the Board.

- *Office of Inspector General*—The OIG is an independent and objective oversight authority established under the Inspector General Act of 1978, as amended. The OIG provides independent oversight by conducting audits, investigations, and other reviews relating to the programs and operations of the Board and the Consumer Financial Protection Bureau. Through this work, the OIG makes recommendations to improve economy, efficiency, and effectiveness; helps prevent and detect fraud, waste, and abuse; and strengthens the agencies' accountability to Congress and the public.

Appendix E: Management's Response

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

JANET L. YELLEN
CHAIR

December 4, 2017

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

Dear Mark:

Thank you for the opportunity to comment on the draft report, *The Board's Organizational Governance System Can Be Strengthened.* The report is a comprehensive analysis of the Board's internal and administrative management processes and provides useful information for further consideration. In particular, the benchmarking with other central banks and regulators offers valuable comparative data. The report presents 14 recommendations in 5 finding areas.

The Board has considered the findings and believes they merit further attention. Specifically, follow-up action will be taken with regard to each of the recommendations. Specific division directors will take the lead on coordinating the work on the recommendations as noted below and presenting options to the Board members for their consideration and appropriate action.

Secretary	Recommendations 1, 2, 3 & 12
Director, Office of Board Members	Recommendations 4, 5, & 6
General Counsel and Secretary	Recommendations 7 & 8
Chief Operating Officer	Recommendations 9, 10, 11, 13 & 14

If you have any questions with regard to specific recommendations, please reach out to the division director noted. We commend your team on their professionalism.

Sincerely,

Janet L. Yellen

Abbreviations

Board	Board of Governors of the Federal Reserve System
CFO	Chief Financial Officer
CHCO	Chief Human Capital Officer
COO	Chief Operating Officer
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
GAO	U.S. Government Accountability Office
OIG	Office of Inspector General
Sunshine Act	Government in the Sunshine Act

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