OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress

October 1, 2012–March 31, 2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CONSUMER FINANCIAL PROTECTION BUREAU

Message from the Inspector General

Mark Bialek, Inspector General

On behalf of the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB), I am pleased to present our Semiannual Report to Congress, which highlights our accomplishments and ongoing work for the six-month period ending March 31, 2013.

Strategic planning for the 2013–2016 period was a major focus for the Office of Inspector General (OIG) during this semiannual reporting period. Both the Board and the CFPB recently unveiled their strategic plans for the coming years. Given the rapid pace of change in our organization and in the agencies we oversee, we are updating our strategic plan to ensure proper alignment with those of the Board and the CFPB.

As part of this process, we developed a new vision:
"To be ***the*** trusted oversight organization of the Board and the CFPB."
This vision stems directly from our commitment to provide independent, objective, and effective oversight and to be the primary organization responsible for addressing questions from the public and Congress regarding the accountability of the Board and the CFPB. In this vein, our overriding strategic goal is to provide timely, high-quality products that promote improvement within the Board and the CFPB. Our other goals focus on developing our workforce, optimizing our engagement with our stakeholders, and enhancing the capacity of our office to accomplish our expanded oversight duties and maximize our own operational effectiveness.

Consistent with our new vision and goals, we also unveiled a new organizational framework. Over the course of the last year, we conducted a complete functional assessment and organizational review of the OIG. This review highlighted the need to effectively adapt to changed circumstances, provide consistent and timely oversight to the Board and the CFPB, and develop expertise in key oversight areas. In general, our new organizational framework consolidates our audits and attestations program and our inspections and evaluations program into one Office of Audits and Evaluations, and it creates a new Office of Information Technology.

The Office of Audits and Evaluations will have three functional components: Supervision and Rulemaking, Management and Operations, and Financial Management and Internal Controls. This change will streamline our staffing and planning efforts, improve the effectiveness and efficiency of our matrix organization, and focus our resources and expertise on key oversight areas. In addition, due to the growing importance of information technology and cybersecurity for the Board, the CFPB, and our own internal operations, the Office of Information Technology will plan and conduct all information technology–related audits and security reviews and evaluations, expand the OIG's data analytics capacity, and manage the internal OIG information technology group.

Recognizing that the Board and the CFPB will continue to evolve, we must be able to anticipate those changes. The new OIG strategic plan and organizational framework will align us with the challenges facing the Board and the CFPB.

I would like to thank the Board and the CFPB for their continued cooperation and support, and I would like to thank the OIG staff for their contributions to defining our new vision and for their exemplary work during this reporting period.

Sincerely,

Mark Bialek
Inspector General
April 30, 2013

OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress

October 1, 2012–March 31, 2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CONSUMER FINANCIAL PROTECTION BUREAU

Contents

Highlights

Consistent with our responsibilities under the Inspector General Act of 1978, as amended (IG Act), the Office of Inspector General (OIG) continued to promote the integrity, economy, efficiency, and effectiveness of the programs and operations of the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB). The following are highlights of our work during this semiannual reporting period.

Audits and Evaluations

Review of the Failure of Bank of Whitman. On September 21, 2011, the Federal Deposit Insurance Corporation (FDIC) estimated that Bank of Whitman's failure would result in a $134.8 million loss to the Deposit Insurance Fund (DIF), which did not exceed the $200 million materiality threshold that would have triggered a material loss review. While the loss to the DIF was below the materiality threshold, we conducted an in-depth review after determining that Bank of Whitman's failure presented unusual circumstances because of various questionable transactions and business practices involving senior management. Bank of Whitman became a state member bank in 2004, and the Federal Reserve Bank of San Francisco (FRB San Francisco) complied with premembership supervisory requirements. FRB San Francisco also complied with examination frequency guidelines for the time frame we reviewed, 2005 through 2011, and conducted regular offsite monitoring. However, in our opinion, FRB San Francisco had multiple opportunities to take stronger supervisory action to address the bank's persistent deficiencies. We recommended that the Director of the Division of Banking Supervision and Regulation (BS&R) review the supervisory approach for premembership examinations and determine whether enhancements to the current approach are appropriate.

Evaluation of Freedom of Information Act Exemption. Section 1103 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) amended section 11 of the Federal Reserve Act (FRA) to establish mandatory disclosure dates for information concerning the borrowers and counterparties participating in emergency credit facilities, discount window lending programs, and open market operations that are authorized by the Board. Prior to these mandatory release dates, the Dodd-Frank Act exempts this information from disclosure under the Freedom of Information Act (FOIA). In this evaluation, which was mandated in the Dodd-Frank Act, we did not find evidence that the FOIA exemption included in section 11(s) of the amended FRA has impacted the public's ability to access information concerning the Board's administration of emergency credit facilities, discount window lending programs, or open market operations. We determined that neither the Board nor the Federal Open Market Committee has utilized the FOIA exemption to withhold information regarding any FOIA requests received from July 21, 2010, the date the exemption became effective, through October 31, 2012, the end of our FOIA review period. We also found that the Federal Reserve System provides a significant amount of publicly available information about the administration of these facilities, programs, and operations, including statutorily mandated disclosures. In addition, we noted that if the FOIA exemption in section 11(s) of the FRA were eliminated, the earlier release of transaction-level information could have adverse impacts on individual institutions and the broader financial markets, as well as on the effectiveness of the emergency credit facilities, discount window lending programs, and open market operations as tools to effect monetary policy and respond to financial crises. We did not recommend any change to the FOIA exemption that Congress provided in section 11(s) of the amended FRA.

Audit of the Board's Purchase Card Program. Overall, we found that controls over the Board's purchase card program can be strengthened. Controls for issuing cards to Board employees, training new cardholders, and recording and reconciling purchases by cardholders were working as intended. However, we found that controls to ensure that cardholders properly use purchase cards and comply with Board policies and procedures were not working as described in the Board's *Purchase Card Procedures*. We also found that controls designed to prevent and detect unauthorized purchases can be strengthened. Our testing did not identify any fraudulent purchases. However, we found that more than 60 percent of the purchases in our sample lacked evidence of approval due to the absence of postcertification reviews. We made three recommendations designed to help strengthen controls for ensuring compliance with purchase card policies and procedures and for detecting potentially unauthorized transactions.

Evaluation of the CFPB's Contract Solicitation and Selection Processes. We found that the CFPB established internal processes and procedures to facilitate Federal Acquisition Regulation (FAR) compliance related to contract solicitation and selection activities; however, opportunities exist to strengthen internal controls. We found that the CFPB's processes and practices were compliant with particular FAR requirements, but at the time of our review, we could not determine whether the CFPB's competition advocate was fulfilling each of the responsibilities described in the FAR. Further, at the time of our review we found that the CFPB had not yet finalized certain CFPB policies and procedures that facilitate FAR compliance in solicitation and selection activities. We also found that the CFPB had expedited contracts in some instances, but we could not determine the reason for the urgency. We made three recommendations to help strengthen the CFPB's internal controls related to contracting.

Annual Audits of the Board's and the CFPB's Information Security Programs. We completed our annual Federal Information Security Management Act of 2002 (FISMA) audits of the Board and the CFPB. At the Board, we found that overall, the Board's Chief Information Officer (CIO) is maintaining a FISMA-compliant approach to the Board's information security program that is generally consistent with requirements established by the National Institute of Standards and Technology (NIST) and the Office of Management and Budget (OMB). The report recommendation from our 2011 FISMA review remains open as work continues on various phases of the information technology (IT) risk assessment framework initiative and continuous monitoring strategy, and we issued two new recommendations related to the Board's contractor oversight program and incident response and reporting program.

At the CFPB, we found that overall, steps have been taken to develop, document, and implement an information security program. However, we recommended that the CIO (1) develop and implement a comprehensive information security strategy that identifies specific goals, objectives, milestones, and resources to establish a FISMA-based information security program; (2) finalize the agency-wide information security policy and develop procedures to facilitate the implementation of the policy; and (3) analyze the CFPB's contractor oversight processes and information security controls for additional contractor-operated systems and take actions, as necessary, to ensure that FISMA and CFPB information security requirements are met.

Investigations

Former Senior Executives of the Bank of the Commonwealth and a Local Real Estate Developer Indicted for Bank Fraud. According to the superseding indictment, in 2006 executives at the Bank of the Commonwealth began an aggressive expansion beyond its traditional lending focus in Norfolk and Virginia Beach to include opening branches in northeastern North Carolina and the Outer Banks. The indictment alleges that many of the Bank of the Commonwealth's loans were funded and administered without regard to industry standards and their own lending policy and internal controls.

By the end of 2008, the volume of troubled loans and foreclosed real estate soared and negatively impacted the bank's capital. From 2008 through 2011, the Bank of the Commonwealth executives allegedly masked the bank's true financial condition out of fear that the bank's declining health would negatively impact investor and customer confidence. The Bank of the Commonwealth was closed by the regulators in 2011, and the FDIC estimated the loss to the DIF to be $268 million.

Twelve individuals associated with the Bank of the Commonwealth investigation were charged in the Eastern District of Virginia with bank fraud, conspiracy to commit bank fraud, false entries, false statements to a financial institution, and misapplication of bank funds. To date, seven defendants have entered guilty pleas to the charges: Three of the seven defendants have been sentenced to a total of 308 months in prison and $32 million in restitution, and sentencing for the remaining four is scheduled for May 2013. The trial for the five defendants who did not enter guilty pleas began March 19, 2013.

Business Owner Sentenced for Bank Fraud. On March 14, 2013, the former owner of an Illinois agricultural business was sentenced to 14 months in prison and 5 years' supervised release and was ordered to pay over $9.8 million in restitution. As previously reported, on September 29, 2011, the former owner was indicted on charges that he overstated the accounts receivable of his business to obtain a $10 million line of credit. According to the indictment, from 2006 to June 2008, the former owner obtained a substantial amount of financing from Corn Belt Bank. In May 2008, when Corn Belt Bank was no longer able to provide sufficient financial support, the former owner arranged for financing with Peoples Bank and Trust, which included the $10 million line of credit. The purposes of the loan included financing the operations of the business and paying off a prior loan from Corn Belt Bank. Corn Belt Bank purchased a 20 percent participation in the loan. In February 2009, Corn Belt Bank was placed in receivership. The indictment alleged that the former owner provided false information to Peoples Bank and Trust to secure the $10 million line of credit as well as after the line of credit was approved and funded. Ultimately, the business defaulted on the loan, resulting in a loss of most of the $10 million Peoples Bank and Trust loaned to the business.

Introduction

Congress established the OIG as an independent oversight authority of the Board, the government agency component of the broader Federal Reserve System, and of the CFPB. Within this framework, the OIG conducts audits, investigations, and other reviews related to Board and CFPB programs and operations. By law, the OIG is not authorized to perform program functions.

Consistent with the IG Act, our office, as the OIG for the Board and the CFPB, has the following responsibilities:

- to conduct and supervise independent and objective audits, investigations, and other reviews related to Board and CFPB programs and operations to promote economy, efficiency, and effectiveness within the Board and the CFPB
- to help prevent and detect fraud, waste, abuse, and mismanagement in Board and CFPB programs and operations
- to review existing and proposed legislation and regulations and make recommendations regarding possible improvements to Board and CFPB programs and operations
- to keep the Board of Governors, the Director of the CFPB, and Congress fully and currently informed

Congress has also mandated additional responsibilities that influence the OIG's priorities, to include the following:

- Section 38(k) of the Federal Deposit Insurance Act, as amended (FDI Act) requires that the OIG review failed financial institutions supervised by the Board that result in a material loss to the DIF and produce a report within six months. Section 38(k) also requires that the OIG report on the results of any nonmaterial losses to the DIF that exhibit unusual circumstances that warrant an in-depth review.
- Section 211(f) of the Dodd-Frank Act requires that the OIG review the Board's supervision of any covered financial company that is placed into receivership and produce a report that evaluates the effectiveness of the Board's supervision, identifies any acts or omissions by the Board that contributed to or could have prevented the company's receivership status, and recommends appropriate administrative or legislative action.
- Section 989E of the Dodd-Frank Act established the Council of Inspectors General on Financial Oversight (CIGFO), which comprises the Inspectors General (IGs) of the Board, the Commodity Futures Trading Commission, the Department of Housing and Urban Development, the U.S. Department of the Treasury (Treasury), the FDIC, the Federal Housing Finance Agency, the National Credit Union Administration, the Securities and Exchange Commission, and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). CIGFO is required to meet at least quarterly to share information and discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. Additionally, CIGFO is required to issue a report annually that highlights the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO also has the authority to convene a working

group of its members to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council (FSOC), which was created by the Dodd-Frank Act and is charged with identifying threats to the nation's financial stability, promoting market discipline, and responding to emerging risks to the stability of the nation's financial system.

- With respect to IT, FISMA established a legislative mandate for ensuring the effectiveness of information security controls over resources that support federal operations and assets. Consistent with FISMA requirements, we perform annual independent reviews of the Board's and the CFPB's information security programs and practices, including the effectiveness of security controls and techniques for selected information systems.

- The USA Patriot Act of 2001 grants the Board certain federal law enforcement authorities. Our office serves as the external oversight function for the Board's law enforcement program.

- Section 11B of the FRA mandates annual independent audits of the financial statements of each Federal Reserve Bank and the Board. We oversee the annual financial statement audits of the Board as well as the Federal Financial Institutions Examination Council (FFIEC). (The Board performs the accounting function for the FFIEC.) The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency (OCC), and the CFPB and to make recommendations to promote uniformity in the supervision of financial institutions. In 2006, the State Liaison Committee was added to the FFIEC as a voting member. The State Liaison Committee includes representatives from the Conference of State Bank Supervisors, the American Council of State Savings Supervisors, and the National Association of State Credit Union Supervisors. (Under the Dodd-Frank Act, the Government Accountability Office performs the financial statement audits of the CFPB.)

Audits and Attestations

The Audits and Attestations program assesses aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. For example, Audits and Attestations conducts audits of (1) the Board's financial statements and financial performance reports; (2) the efficiency and effectiveness of processes and internal controls over agency programs and operations; (3) the adequacy of controls and security measures governing agency financial and management information systems and the safeguarding of assets and sensitive information; and (4) compliance with applicable laws and regulations related to agency financial, administrative, and program operations. As mandated by the IG Act, OIG audits and attestations are performed in accordance with the *Government Auditing Standards* established by the Comptroller General. The information below summarizes OIG work completed during the reporting period and ongoing work that will continue into the next semiannual reporting period.

Completed Audit Work at the Board

Controls over the Board's Purchase Card Program Can Be Strengthened
OIG Report No. 2013-AA-B-006, March 29, 2013

Our overall objective for this audit was to evaluate the effectiveness of controls over the Board's purchase card program. Specifically, we assessed the effectiveness of controls for issuing cards to Board employees and ensuring proper use, including (1) determining if controls were adequate to ensure cardholder compliance with Board policies and procedures and (2) assessing whether controls were adequate to prevent and detect improper and fraudulent use of purchase cards.

The Board participates in the government-wide purchase card program known as the General Services Administration SmartPay2 program. Through this program, the Board contracts for purchase card services with JPMorgan Chase (JPMC), and it authorizes JPMC to issue purchase cards to designated employees. JPMC invoices the Board for cardholders' purchases, which are required to comply with the Board's *Acquisition* policy and *Purchase Card Procedures*. The Board is liable for transactions made by authorized cardholders.

Overall, we found that controls over the Board's purchase card program can be strengthened. Controls for issuing cards, training new cardholders, and recording and reconciling purchases by cardholders were working as intended. However, we found that controls to ensure that cardholders properly use purchase cards and comply with Board policies and procedures were not working as described in the Board's *Purchase Card Procedures*. We also found that controls designed to prevent and detect unauthorized purchases can be strengthened. Our testing did not identify any fraudulent purchases. However, we found that more than 60 percent of the purchases in our sample lacked evidence of approval due to the absence of postcertification reviews.

We made three recommendations designed to help strengthen controls for ensuring compliance with purchase card policies and procedures and for detecting potentially unauthorized transactions. Management stated that it concurred with the process improvements included in our recommendations and is already addressing specific aspects of the recommendations.

2012 Audit of the Board's Information Security Program
OIG Report No. 2012-AA-B-001, November 14, 2012

This annual audit of the Board's information security program and practices was performed pursuant to FISMA, which requires each agency IG to conduct an annual independent evaluation of the agency's information security program and practices. Our specific audit objectives were to evaluate the effectiveness of security controls and techniques for selected information systems and to evaluate the Board's compliance with FISMA and related information security policies, procedures, standards, and guidelines provided by NIST, OMB, and the Department of Homeland Security.

In accordance with reporting requirements, our FISMA review included an analysis of the Board's security-related processes in the following areas: risk management, continuous monitoring management, plan of action and milestones, identity and access management, remote access management, configuration management, security training, contractor systems, contingency planning, incident response and reporting, and security capital planning.

Overall, we found that the Board's CIO is maintaining a FISMA-compliant approach to the Board's information security program that is generally consistent with requirements established by NIST and OMB. During the past year, the Information Security Officer (ISO) continued to issue and update information security policies and guidelines. In addition, progress has been made to implement (1) an enterprise IT risk assessment framework initiative and a continuous monitoring strategy as well as (2) a new automated workflow support tool to provide an automated method for documenting, reviewing, and approving the security posture of all Board information systems. These efforts were undertaken to transform the Board's Certification and Accreditation process into the NIST Risk Management Framework.

An additional part of the overall risk assessment framework requires the CIO to ensure that risk assessments are adequately identifying, evaluating, and documenting the level of risk to information systems based on potential threats, vulnerabilities, and currently implemented or planned controls to determine whether additional controls are needed. Although progress has been made by the ISO to address the NIST guidance regarding risk management, the enterprise IT risk assessment framework needs to be fully implemented Board-wide and the automated workflow support tool needs to be fully operational for the Board to meet the requirements of NIST's organization-wide risk management approach. Our prior 2011 report contained one recommendation: that the CIO complete and fully implement the enterprise IT risk assessment framework Board-wide and ensure that the automated workflow support tool is fully operational in order to comply with updated NIST guidance on the new Risk Management Framework. This recommendation will remain open as work continues on various phases of the IT risk assessment framework initiative and continuous monitoring strategy. We will continue to monitor the ISO's actions in implementing the enterprise IT risk assessment framework Board-wide, which includes improving overall risk assessments.

Our 2012 report contained two new recommendations related to the Board's contractor oversight program and incident response and reporting program. First, to ensure that all Board data meet the requirements of the Board Information Security Program and NIST standards and controls, we recommend that the CIO develop and implement a security review process for third-party systems located outside the Federal Reserve System to ensure that systems employ information security controls sufficient to meet the requirements of the Board Information Security Program and NIST standards. Second, we recommend that the CIO document the roles and responsibilities of the Board and National Incident Response Team staffs supporting Board incidents and analyze changes that are needed to existing agreements to ensure that the respective roles and responsibilities of the National Incident Response Team and the Board are specified. The Director of the Division of Information Technology, in her capacity as the CIO, agreed with the two recommendations in our report and has initiated efforts to address both issues.

Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Reports

We contract with an independent public accounting firm to annually perform an integrated audit of the Board's financial statements and internal controls over financial reporting. The accounting firm, currently Deloitte & Touche LLP, performs the audit to provide reasonable assurance that the financial statements are free of material misstatement and to express an opinion on the effectiveness of the Board's internal controls over financial reporting based on the Public Company Accounting Oversight Board standards. The OIG oversees the activities of the contractor to ensure compliance with generally accepted government auditing standards and Public Company Accounting Oversight Board auditing standards related to internal controls over financial reporting. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as an evaluation of the overall financial statement presentation.

In the auditors' opinion, the Board's financial statements presented fairly, in all material respects, the financial position and the results of its operations and its cash flows as of December 31, 2012, and 2011, in conformity with U.S. generally accepted accounting principles. Also, in the auditor's opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in the *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As part of providing reasonable assurance that the financial statements are free of material misstatement, the auditors also performed tests of the Board's compliance with certain provisions of laws and regulations, since noncompliance with these provisions could have a direct and material effect on the determination of the financial statement amounts. The results of the auditors' tests disclosed no instances of noncompliance that would be required to be reported under *Government Auditing Standards.*

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Reports

The Board performs the accounting function for the FFIEC, and we contract with an independent public accounting firm to annually audit the council's financial statements. The accounting firm, currently Deloitte & Touche LLP, performs the audits to provide reasonable assurance that the financial statements are free of material misstatement. The OIG oversees the activities of the contractor to ensure compliance with generally accepted government auditing standards. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as an evaluation of the overall financial statement presentation.

To determine the auditing procedures necessary to express an opinion on the financial statements, the auditors considered the FFIEC's internal controls over financial reporting. As part of providing reasonable assurance that the financial statements are free of material misstatement, the auditors also performed tests of the FFIEC's compliance with certain provisions of laws and regulations, since noncompliance with these provisions could have a direct and material effect on the determination of the financial statement amounts.

In the auditors' opinion, the FFIEC's financial statements presented fairly, in all material respects, the financial position, results of operations, and cash flows as of December 31, 2012, and 2011, in conformity with accounting principles generally accepted in the United States. To determine the auditing procedures necessary to express an opinion on the financial statements, the auditors reviewed the FFIEC's internal control over financial reporting. The auditors noted no matters involving internal control over financial reporting that were considered material weaknesses in accordance with *Government Auditing Standards.*

As part of providing reasonable assurance that the financial statements are free of material misstatement, the auditors also performed tests of the FFIEC's compliance with certain laws and regulations, since noncompliance with these provisions could have a direct and material effect on the determination of the financial statement amounts. The results of the auditors' tests disclosed no instances of noncompliance that would be required to be reported under *Government Auditing Standards.*

Audit Observations on the Board's Planning and Contracting Process for the Martin Building Construction, Renovation, and Relocation of Staff

OIG Report No. 2013-AA-B-007, March 29, 2013

The Board's strategic framework for 2012–2015 identified that upgrades to its physical infrastructure were necessary to ensure that the work environment is secure, modern, and attractive. A comprehensive renovation of the Martin Building, including the construction of a conference center and a visitors' center, will address these concerns and will require significant contracting efforts, space planning, and relocation of staff. We conducted an audit survey to gather information on, and to gain an understanding of, the current status of the Martin Building construction and renovation, the space planning process, and leasing policies and procedures to identify potential areas for audit.

Overall, we noted that the Martin Building renovation project has gone through a lengthy design phase, primarily due to significant scope changes. As a result of these scope changes and other delays by the Board, the Board has paid claims totaling $139,165 for increases in the architectural and engineering (A/E) firm's labor rates. In addition, the A/E firm recently submitted an additional claim that is currently under review by the Board.

We highlighted the above-mentioned observations for management's attention as lessons learned while the construction and renovation project continues. The Board will be soliciting a construction contract for the Martin Building renovations, the visitors' center, and the conference center with an estimated cost of approximately $180 million, an amount over 10 times higher than the current A/E contract. Similar delays occurring during construction could lead to significantly higher claims and increased costs for the Board due to the size of the construction contract and the nature of construction work. Moving forward, we believe it is important for the Board to ensure that specific plans are finalized before contracts are awarded to minimize the risk of additional delays and potential increases in costs during construction. The Board concurred with our observations and concerns and stated that actions are being taken to minimize the risk of additional delays and potential increases in cost during construction.

Security Control Review of Contingency Planning Controls for the Information Technology General Support System

OIG Report No. 2012-AA-B-003, November 19, 2012

We completed a security control review of the contingency planning controls provided by the General Support System supported by the Division of Information Technology (IT GSS). Our objective was to

determine whether the Board is maintaining a contingency program for the IT GSS that is generally consistent with related NIST and OMB FISMA guidance.

Overall, we found that the Board has established and is maintaining a contingency program for the IT GSS that is generally consistent with NIST and OMB FISMA requirements. Although we did not identify any significant discrepancies, we found opportunities to strengthen the IT GSS contingency planning. Our report included five recommendations to management to strengthen controls. Management generally agreed with our recommendations and discussed corrective actions that have already been completed, are underway, or are planned.

Follow-up Audit Work at the Board

Follow-up on the Audit of Blackberry and Cell Phone Internal Controls

We completed a second follow-up review of our March 2009 *Audit of Blackberry and Cell Phone Internal Controls*. The report contained three recommendations designed to improve existing controls used to manage and account for devices. Our previous follow-up work resulted in the closure of two recommendations, as well as the partial closure of the third recommendation, which pertained to recording all entries in the Secure Inventory Closet (SIC) transaction log and performing monthly reconciliations of the Badge Access log; ensuring proper segregation of duties among IT staff; and receiving reports of upcoming employee retirements, separations, and transfers to ensure that devices are returned before the employees' retirement, separation, or transfer date.

During the current review, we examined actions taken by the Division of Information Technology to address the remaining open recommendation regarding the positioning of the security camera in the SIC to closely monitor IT personnel actions regarding devices stored in the SIC. Based on our follow-up work, we determined that sufficient action had been taken to close the remaining recommendation. Specifically, we found that IT management has implemented several controls to manage and account for devices. These controls consist of the SIC transaction log, automated Badge Access logs, a web-based inventory system that records devices with a barcode scanner, and periodic physical inventories. Additionally, IT personnel who have access to the devices stored in the SIC utilize a three-factor entry method: an authorized badge, an SIC key, and a separate key to access storage cabinets located within the SIC where devices are stored.

Ongoing Audit Work at the Board

Audit of the Board's Internal Control Processes

We continued our audit of the Board's internal control processes. Our objective is to assess the processes for establishing, maintaining, and monitoring internal controls across the Board's divisions. A properly designed and effectively implemented internal control process is intended to provide reasonable assurance that policies are followed and objectives are met; programs achieve their intended results; resource use is consistent with laws, regulations, and policies; and reliable information is obtained, maintained, reported, and used for decisionmaking. We have completed fieldwork, and we expect to complete our audit during the next semiannual reporting period.

Review of the Financial Stability Oversight Council's Process to Designate Financial Market Utilities as Systemically Important

In 2013, CIGFO convened a working group to examine the rules, procedures, and practices established by FSOC and its member agencies to designate financial market utilities (FMUs) as systemically important and therefore subject to the requirements of title VIII of the Dodd-Frank Act. In addition, the working group made inquiries regarding FSOC's processes to designate payment, clearing, and settlement activities conducted by financial institutions as systemically important.

As the independent oversight entity of the Board, the OIG is a member of the working group. During this reporting period, we completed fieldwork that enabled us to understand and assess the Board's role in (1) assisting FSOC to determine the FMUs that should be designated as systemically important and (2) FSOC's monitoring processes for identifying and designating additional FMUs or rescinding prior FMU designations. In addition, we made inquiries regarding the status of FSOC's processes to designate payment, clearing, and settlement activities conducted by financial institutions as systemically important. The CIGFO working group plans to issue a report to FSOC in June 2013.

Security Control Review of a Third-party Commercial Data Exchange Service Used by the Board's Division of Banking Supervision and Regulation

We completed our fieldwork and began drafting the report for a security control review of a third-party commercial data exchange service used by BS&R. This application is listed on the Board's FISMA inventory as a third-party application maintained for BS&R by the Federal Reserve Bank of Philadelphia. Our review objectives are to (1) evaluate the adequacy of certain control techniques for protecting data in the system from unauthorized access, modification, destruction, or disclosure and (2) assess compliance with the Board Information Security Program. We expect to complete this review and issue our final report in the next reporting period.

Security Control Review of the Board's National Examination Database System

We completed our fieldwork and began drafting the report for a security control review of the Board's National Examination Database System. The National Examination Database System is a major application of the Board that is utilized by BS&R. Our objectives are to (1) evaluate the adequacy of certain control techniques designed to protect data in the system from unauthorized access, modification, destruction, or disclosure and (2) assess compliance with the Board Information Security Program and FISMA requirements. We expect to complete the review and issue our final report during the next semiannual reporting period.

Audit of the Board's Information Technology Contingency Planning and Continuity of Operations Program

We initiated an audit of the IT contingency planning and continuity of operations of the Board. Our audit will focus on reviewing how the Board's contingency planning and continuity of operations programs will provide a coordinated strategy involving plans, procedures, and technical measures that enable the recovery of information systems, operations, and data after a disruption. In addition, we will review the cost of maintaining the Board's IT continuity of operations program in an effort to identify cost savings and opportunities to enhance efficiencies.

Audit of Redundant Provisioning of Information Technology Services across Board Divisions

We initiated an audit to determine whether there is any redundant provisioning of IT services across Board divisions. Our audit will focus on identifying (1) how IT services are provided across the organization and (2) the potential to enhance operational efficiencies. In the Board's strategic framework for the next three years, the sixth strategic theme is to establish a cost-reduction approach for Board operations that maintains an effective and efficient use of financial resources. Accordingly, Board divisions have linked their objectives to the strategic framework and are working to identify opportunities for potential cost savings and to improve operational efficiencies.

Audit of the Board's STAR Modernization Project

We initiated an audit of the STAR modernization project. STAR is the central computer application used by the statistics function at the Federal Reserve Banks and the Board to collect and edit over 75 periodic statistical reports from financial institutions. Our audit will focus on the adequacy and internal controls of the development process for the new system, including the cost and schedule. In addition, we will assess how security controls are being built into the system.

Audit of the Relocation of the Board's Data Center

We initiated an audit of the relocation of the Board's data center. The Board's data center operates 24 hours a day, 365 days a year to monitor the operation of the Board's mainframe and the status of the file servers and other critical components of the Board's distributed network. The Board is transitioning to a new data center because the critical cooling capacity of the existing data center has been stressed during peak summer loads, and its critical power capacity is expected to be insufficient by 2013. Our audit will focus on reviewing costs associated with the new data center and reviewing how the Board is implementing physical and environmental controls.

Completed Audit Work at the CFPB

2012 Audit of the Consumer Financial Protection Bureau's Information Security Program

OIG Report No. 2012-AA-C-002, November 15, 2012

We performed this annual audit of the CFPB's information security program pursuant to FISMA, which requires each agency IG to conduct an annual independent evaluation of the agency's information security program and practices. Our specific audit objectives were to evaluate the effectiveness of security controls and techniques for selected information systems and to evaluate compliance by the CFPB with FISMA and related information security policies, procedures, standards, and guidelines provided by NIST, OMB, and the Department of Homeland Security.

In accordance with reporting requirements, our FISMA review included an analysis of the CFPB's security-related processes in the following areas: risk management, continuous monitoring management, plan of action and milestones, identity and access management, remote access management, configuration management, security training, contractor systems, contingency planning, incident response and reporting, and security capital planning.

Overall, we found that the CFPB has taken several steps to develop, document, and implement an information security program. For example, the CFPB has drafted agency-wide information security and acceptable-use policies, as well as procedures for continuous monitoring and risk management. In addition, the CFPB has developed an inventory of FISMA-reportable systems and a baseline of security controls for its information systems. However, we found that additional steps are needed to fully develop, document, and implement an information security program that is consistent with FISMA.

We recommended that the CIO develop and implement a comprehensive information security strategy that identifies specific goals, objectives, milestones, and resources to establish a FISMA-based information security program; finalize the agency-wide information security policy and develop procedures to facilitate the implementation of the policy; and analyze the CFPB's contractor oversight processes and information security controls for additional contractor-operated systems and take actions, as necessary, to ensure that FISMA and CFPB information security requirements are met. The CIO concurred with our recommendations and outlined actions that have been taken, are underway, and are planned to strengthen CFPB's information security program.

Security Control Review of the Consumer Financial Protection Bureau's Consumer Response System

OIG Report No. 2013-AA-C-005, March 28, 2013

We conducted this security control review of the CFPB's Consumer Response System (CRS) to evaluate the adequacy of selected security controls for protecting the CRS from unauthorized access, modification, destruction, or disclosure, as well as the system's compliance with FISMA and CFPB information security policies, procedures, standards, and guidelines. The CRS is a contractor-operated system used by the CFPB to collect, investigate, and respond to consumer complaints regarding certain financial products and services. It is listed on the CFPB's FISMA inventory as a major application.

Overall, we found that a number of steps have been taken to secure the CRS. However, we found that improvements are needed to ensure that FISMA requirements are met. Our report included nine recommendations to CRS management to strengthen security controls for the system. The Acting CIO concurred with our recommendations and outlined actions that have been taken, are underway, and are planned to address our recommendations.

Ongoing Audit Work at the CFPB

Audit of the CFPB's Travel Card Program

We initiated an audit of the CFPB's travel card program. The CFPB's travel card program provides employees with the resources needed to arrange and pay for official business travel, relocation, and other related expenses and receive reimbursements for such expenses. A recent report by an independent auditor noted that many of the CFPB's travel and relocation policies and procedures need enhancements to ensure program efficiency and effectiveness, as a significant amount of the CFPB's daily operations require travel. The objective of this audit is to determine the effectiveness of the CFPB's internal controls for its travel card program. We will review compliance with policies and procedures, and we will assess whether internal controls are designed and operating effectively to (1) provide reasonable assurance that cards are properly issued, monitored, and closed out and (2) prevent and detect fraudulent or unauthorized use of travel cards. We expect to issue our final report in the next reporting period.

Audit of the CFPB's Purchase Card Program

We initiated an audit of the CFPB's purchase card program. Use of the government purchase card provides a number of advantages when procuring goods and services. However, past audits by individual federal agencies of their purchase card programs, as well as audits conducted by the Government Accountability Office, have identified weaknesses and vulnerabilities in the federal purchase card program. The objective of this audit is to assess whether the controls for the CFPB's purchase card program are adequate to (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and CFPB policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards. We are currently developing the audit's scope and methodology, and we expect to complete our audit during the next semiannual reporting period.

Review of the Financial Stability Oversight Council's Process to Designate Financial Market Utilities as Systemically Important

In 2013, CIGFO convened a working group to examine the rules, procedures, and practices established by FSOC and its member agencies to designate FMUs as systemically important and therefore subject to the requirements of title VIII of the Dodd-Frank Act. In addition, the working group made inquiries regarding FSOC's processes to designate payment, clearing, and settlement activities conducted by financial institutions as systemically important.

As the independent oversight entity of the CFPB, the OIG is a member of the working group. During this reporting period, we completed fieldwork that enabled us to understand and assess the CFPB's role in (1) assisting FSOC to determine the FMUs that should be designated as systemically important and (2) FSOC's monitoring processes for identifying and designating additional FMUs or rescinding prior FMU designations. In addition, we made inquiries regarding the status of FSOC's processes to designate payment, clearing, and settlement activities conducted by financial institutions as systemically important. The CIGFO working group plans to issue a report to FSOC in June 2013.

Inspections and Evaluations

The Inspections and Evaluations program encompasses OIG inspections, program evaluations, enterprise risk management activities, process design and life cycle evaluations, and legislatively mandated reviews of failed financial institutions supervised by the Board. Inspections are generally narrowly focused on a particular issue or topic and provide time-critical analysis that cuts across functions and organizations. In contrast, evaluations are generally focused on a specific program or function and make extensive use of statistical and quantitative analytical techniques. Evaluations can also encompass other preventive activities, such as reviews of system development life cycle projects and participation on task forces and workgroups. OIG inspections and evaluations are performed according to the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

Completed Inspection and Evaluation Work at the Board

Failed Bank Reviews

Section 38(k) of the FDI Act requires that the IG of the appropriate federal banking agency complete a review of the agency's supervision of a failed institution and issue a report within six months of notification from the FDIC OIG when the projected loss to the DIF is material. Under section 38(k) of the FDI Act, as amended, a material loss to the DIF is defined as an estimated loss in excess of $200 million for losses that occurred from January 1, 2010, through December 31, 2011. For the period January 1, 2012, through December 31, 2013, a material loss to the DIF is defined as $150 million.

The material loss review provisions of section 38(k) require that the IG do the following:

- review the institution's supervision, including the agency's implementation of prompt corrective action
- ascertain why the institution's problems resulted in a material loss to the DIF
- make recommendations for preventing any such loss in the future

For bank failures that result in losses to the DIF below the materiality threshold, the IG must review the failure to determine, among other things, whether the loss exhibits unusual circumstances that warrant an in-depth review. In such cases, the IG must prepare a report in a manner consistent with the requirements of a material loss review. The IG must semiannually report the dates when each such review and report will be completed. If the IG determines that a loss did not involve unusual circumstances that warrant an in-depth review, the IG is required to provide an explanation of its determination in the report. The OIG has included its report on nonmaterial loss bank failures in this *Semiannual Report to Congress* (page 24).

As shown in the table below, during this reporting period we issued one report on a failed state member bank that had losses below the materiality threshold, but we determined that the losses exhibited unusual circumstances that warranted an in-depth review.

Failed Bank Reviews Completed during the Reporting Period

State member bank	Location	Federal Reserve Bank	Asset size (in millions)	DIF projected loss (in millions)	Closure date	FDIC OIG notification date[a]
Bank of Whitman	Colfax, WA	San Francisco	$548.6	$134.8	08/05/2011	09/21/11

a. Date that our office received notification from the FDIC OIG about the projected loss to the DIF.

Review of the Failure of Bank of Whitman

OIG Report No. 2013-IE-B-002, March 22, 2013

Bank of Whitman was closed on August 5, 2011. On September 21, 2011, the FDIC estimated that Bank of Whitman's failure would result in a $134.8 million loss to the DIF, which did not exceed the $200 million materiality threshold that applied at the time of notification by the FDIC OIG. While the loss to the DIF was below the materiality threshold, we conducted an in-depth review after determining that Bank of Whitman's failure presented unusual circumstances because of various questionable transactions and business practices involving senior management.

Bank of Whitman failed because of the convergence of several factors. The bank altered its traditional agricultural lending strategy and expanded into new market areas, which resulted in rapid growth and high commercial real estate concentrations as well as credit concentrations to individual borrowers. Bank of Whitman's corporate governance weaknesses allowed the bank's senior management to dominate the institution's affairs and undermine the effectiveness of key control functions. Bank of Whitman's credit concentrations and poor credit risk management practices, along with a decline in the local real estate market, resulted in asset quality deterioration, significant losses, and eroded capital. At that point, management engaged in a series of practices to mask the bank's true condition. The escalating losses depleted earnings and left the bank in a critically undercapitalized condition, which prompted the Washington State Department of Financial Institutions to close the bank and appoint the FDIC as receiver on August 5, 2011.

Bank of Whitman became a state member bank in 2004, and FRB San Francisco complied with premembership supervisory requirements. FRB San Francisco also complied with examination frequency guidelines for the time frame we reviewed, 2005 through 2011, and conducted regular offsite monitoring. However, our analysis of FRB San Francisco's supervision of Bank of Whitman revealed that FRB San Francisco identified the bank's fundamental weaknesses during its first examination in 2005 but did not take decisive action to resolve those weaknesses until September 2009. In our opinion, FRB San Francisco had multiple opportunities from 2005 to 2009 to take stronger supervisory action to address the bank's persistent deficiencies.

We recommended that the Director of BS&R review the supervisory approach for premembership examinations and determine whether enhancements to the current approach outlined in Supervision and Regulation Letter 11-2, *Examinations of Insured Depository Institutions Prior to Membership or Mergers into State Member Banks,* are appropriate. BS&R staff acknowledged the conclusion and lessons learned in the report and will follow up on the report's recommendation.

No Changes Recommended to Freedom of Information Act Exemption Included in the Amended Federal Reserve Act

OIG Report No. 2013-AA-B-001, January 18, 2013

Section 1103 of the Dodd-Frank Act amends section 11 of the FRA to establish mandatory disclosure dates for information concerning the borrowers and counterparties participating in emergency credit facilities, discount window lending programs, and open market operations that are authorized by the Board. Prior to these mandatory release dates, the Dodd-Frank Act exempts this information from disclosure under FOIA. As required by the Dodd-Frank Act, we conducted a study of the impact that this FOIA exemption has had on the public's ability to access information about the Board's administration of emergency credit facilities, discount window lending operations, and open market operations. Further, we were required by the FRA to submit a report to the Senate Committee on Banking, Housing, and Urban Affairs and the House of Representatives Committee on Financial Services on the findings of our study, as well as make any recommendations on whether the exemption in section 11(s) should remain in effect.

During our evaluation, we did not find evidence that the FOIA exemption included in section 11(s) of the amended FRA has impacted the public's ability to access information concerning the Board's administration of emergency credit facilities, discount window lending programs, or open market operations. We determined that neither the Board nor the Federal Open Market Committee has utilized the FOIA exemption in section 11(s) of the FRA to withhold information regarding any FOIA requests received from July 21, 2010, the date the exemption became effective, through October 31, 2012, the end of our FOIA review period. We also found that the Federal Reserve System provides a significant amount of publicly available information about the administration of these facilities, programs, and operations that includes statutorily mandated disclosures. Published information also includes broad-based reporting, program administrative terms and conditions, and aggregate data, such as weekly statistical reports and balance sheet information. In addition, we noted that if the FOIA exemption in section 11(s) of the FRA were eliminated, the earlier release of transaction-level information could have adverse impacts on individual financial institutions and the broader financial markets, as well as on the effectiveness of the emergency credit facilities, discount window lending programs, and open market operations as tools to effect monetary policy and respond to financial crises.

Given our determination that the FOIA exemption in section 11(s) of the FRA has not impacted the public's ability to access information about the Board's administration of emergency credit facilities, discount window lending programs, or open market operations and that there is the potential for adverse impacts with earlier releases of information, we did not recommend any change to the FOIA exemption that Congress provided in section 11(s) of the amended FRA. The Board indicated that it agreed with our conclusion.

Status of the Transfer of Office of Thrift Supervision Functions

OIG Report No. 2013-IE-B-003, March 27, 2013

Title III of the Dodd-Frank Act established provisions for the transfer of authorities from the Office of Thrift Supervision (OTS) to the OCC, the FDIC, and the Board within one year after the July 21, 2010, enactment date. Title III transferred to the Board, on July 21, 2011, the functions and rulemaking authority for consolidated supervision of savings and loan holding companies and their nondepository subsidiaries. The Dodd-Frank Act required that, within 180 days after its enactment, the OTS, the OCC, the FDIC, and the Board jointly submit a plan—the Joint Implementation Plan—to Congress and the IGs of Treasury, the FDIC, and the Board that detailed the steps each agency would take to implement the title III provisions. The Joint Implementation Plan was submitted to Congress and the IGs on January 25, 2011. The Dodd-Frank Act also required the IGs to determine whether the implementation plan conformed to the title III provisions. On March 28, 2011, the IGs jointly issued a

report concluding that the actions described in the Joint Implementation Plan generally conformed to the provisions of title III.[1]

Section 327 of title III requires the IGs to report on the status of the implementation of the Joint Implementation Plan every six months. The IGs have issued four status reports to date: the first three on September 28, 2011; March 21, 2012; and September 28, 2012; and, during this reporting period, the fourth on March 27, 2013. These joint reports, all of which were titled *Status of the Transfer of Office of Thrift Supervision Functions*, concluded that the Board, the FDIC, the OCC, and the OTS have substantially implemented actions to transfer OTS functions, employees, funds, and property to the Board, the FDIC, and the OCC, as appropriate. All four reports noted that the Board was still implementing certain aspects of the plan. The March 27, 2013, report noted that the rulemaking for the collection of supervisory assessments by the Board was ongoing. In its written response to the March 27, 2013, report, the Board stated that it is working diligently to complete the proposed rulemaking for the collection of supervisory assessments and expects the proposal to be issued by the end of the first quarter of this year or early in the second quarter.

Follow-up Inspection and Evaluation Work at the Board

Follow-up on the Summary Analysis of Failed Bank Reviews and the Material Loss Review of the Bank of the Commonwealth

We completed a follow-up review of the actions taken on open recommendations in our material loss and in-depth reviews from 2011 through 2012. There was one material loss review and a related report containing open recommendations: (1) *Summary Analysis of Failed Bank Reviews* and (2) *Material Loss Review of the Bank of the Commonwealth*. The summary analysis report had three open recommendations, and the Bank of the Commonwealth report had four open recommendations.

Based on our follow-up work, we determined that sufficient action had been taken to close two of the three summary analysis recommendations, and three of the four Bank of the Commonwealth recommendations. For the summary analysis recommendations, we found that BS&R (1) conducted training for examiners using recent failures as case studies and (2) modified examination procedures related to compensation. As a result of these BS&R actions, we closed recommendations 1 and 2 from the summary analysis report. For the Bank of the Commonwealth recommendations, we found that (1) BS&R implemented improved tracking and reporting of Matters Requiring Attention and Matters Requiring Immediate Attention, which provides for an effective supervisory response for an institution that requires an enforcement action; (2) the Federal Reserve Bank of Richmond conducted training with staff regarding conflicts of interest; and (3) BS&R issued Advisory Letter 13-08, which clarifies procedures that Reserve Banks should follow in a case that requires a Suspicious Activity Report to be filed. As a result of these actions, we closed recommendations 2, 3, and 4 from the Bank of the Commonwealth report.

BS&R has initiated actions to address the remaining open recommendations. We expect to continue our review of follow-up actions during the next semiannual reporting period.

1. However, in response to a finding in the joint IGs' report, the Joint Implementation Plan was amended in April 2011 to expand on the protections for transferred OTS employees.

Follow-up on the Inspection of the Protective Services Unit

We completed a follow-up review of the OIG recommendations made in the August 2012 *Inspection of the Board's Protective Services Unit*. In that report, we identified six recommendations to improve internal controls in the Protective Services Unit's processes. As part of our follow-up work, we interviewed Protective Services Unit staff and reviewed pertinent documentation. Based on these efforts, we have determined that sufficient action has been taken to close all six recommendations.

Ongoing Inspection and Evaluation Work at the Board

In-depth Review of the Failure of Waccamaw Bank

On June 8, 2012, the North Carolina Office of the Commissioner of Banks closed Waccamaw Bank and appointed the FDIC as receiver. According to the FDIC's press release, as of March 31, 2012, Waccamaw Bank had approximately $533.1 million in total assets and $472.7 million in total deposits. On June 8, 2012, the FDIC estimated that the cost of Waccamaw Bank's closure to the DIF will be $51.1 million, which did not meet the materiality threshold as defined under section 38(k) of the FDI Act. Based on the results of our failed bank review, we determined that the failure of Waccamaw Bank was due to circumstances that have been covered in past OIG reports. However, our failed bank review also identified three unusual circumstances that warrant an in-depth review of Waccamaw Bank: (1) Waccamaw Bank appears to have misinformed regulators about key aspects of an asset swap transaction that significantly changed its risk profile and financial condition; (2) Waccamaw Bank initiated a series of appeals related to the examiners' recommended accounting treatment of a transaction, which ultimately reached the highest level of appellate review by a Board Governor; and (3) there were unique circumstances surrounding the retirement of Waccamaw Bank's former president and chief executive officer (CEO). As a result, we initiated an in-depth review that focuses on these three unusual circumstances. We plan to issue our report by June 2013.

Review of the Federal Reserve's Supervisory Activities Related to the Recent Loss at JPMorgan Chase & Co.'s Chief Investment Office

In May 2012, we initiated a scoping review of the Federal Reserve's supervisory activities related to the multibillion-dollar loss at JPMC's Chief Investment Office. We completed our scoping review and subsequently initiated evaluation work in July 2012. Our objectives for this evaluation are to (1) assess the effectiveness of the Board's and the Federal Reserve Bank of New York's consolidated and other supervisory activities regarding JPMC's Chief Investment Office and (2) identify lessons learned for enhancing future supervisory activities.

Evaluation of the Board's Policies, Procedures, and Practices Associated with Agency-sponsored Conferences

In May 2012, the OIG initiated an evaluation of the Board's conference-related activities. The evaluation began shortly after the General Services Administration's OIG issued a report on a conference held by that agency outside Las Vegas that noted multiple violations of the Federal Travel Regulation. The objectives of our evaluation focus on determining the controls, policies, procedures, and practices associated with conferences. The review is limited to conference activities sponsored by the Board. We plan to issue our report during the next semiannual reporting period.

Evaluation of the Board's Preparedness for Unexpected Emergency Events

We completed our fieldwork related to the Board's emergency preparedness for unexpected emergency events. The objective of this review was to evaluate the Board's policies and procedures for responding to unexpected emergency events. The Board has developed a crisis management structure that serves as a basic framework and provides guidance to employees across a number of scenarios while allowing for flexibility depending on the specific nature of the emergency. However, the emergency response to the August 2011 earthquake identified a number of potential communication problems and a need to enhance coordination with neighboring federal agencies. Our review will evaluate the readiness of the Board to respond to similar events, including actions the Board has taken from lessons learned during the August 2011 emergency and its communication to employees since this incident. We expect to complete our evaluation and issue our report during the next semiannual reporting period.

Inspection of the Board's Law Enforcement Unit

We initiated an inspection of the Board's Law Enforcement Unit to assess compliance with the *Uniform Regulations for Federal Reserve Law Enforcement Officers*, Board and Law Enforcement Unit internal policies and procedures, applicable laws, and law enforcement best practices. The USA Patriot Act of 2001 granted the Board certain federal law enforcement authorities. To implement these authorities, the Board promulgated the *Uniform Regulations for Federal Reserve Law Enforcement Officers* in 2002. The regulations designated the Board's OIG as the external oversight function responsible for reviewing and evaluating the Board's law enforcement programs and operations. We are performing this inspection of the Board's Law Enforcement Unit as part of our external oversight responsibilities. We will coordinate the development of our inspection methodology with the Board's Division of Reserve Bank Operations and Payment Systems, which serves as the external oversight function for the Reserve Banks' law enforcement program. We plan to issue our report during the next semiannual reporting period.

Evaluation of the Board's Adherence to the Small Entity Compliance Guide Requirements in the Small Business Regulatory Enforcement Fairness Act of 1996

We continued our evaluation of the Board's adherence to the small entity compliance guide requirements contained in the Small Business Regulatory Enforcement Fairness Act of 1996, as amended. On January 26, 2011, the OIG Hotline received a complaint concerning the Board's proposed rule related to loan originator compensation. The complaint outlined several concerns related to the Board's rulemaking process for the proposed rule. One of the concerns the complainant discussed with the Board's "regulatory staff" was that the Board did not adequately meet the small entity compliance guide requirements contained in the Small Business Regulatory Enforcement Fairness Act of 1996. We initiated this evaluation to assess the Board's compliance with applicable requirements. We anticipate issuing our report before the close of the next semiannual reporting period.

Response to a Congressional Request Regarding the Board's Compliance with Federal Requirements for Addressing Climate Change

During this reporting period, we received a letter from the co-chairs of the Bicameral Taskforce on Climate Change regarding the actions taken by the Board in response to climate change. In the letter, the task force requested the identification of existing requirements in legislation, regulation, executive

order, and other directives that apply to the Board and our assessment of how the Board is meeting these requirements. The task force also requested the identification of the Board's authorities to reduce emissions of heat-trapping pollution and to make the nation more resilient to the effects of climate change. We requested that the Board's General Counsel determine the federal requirements that apply to both components of the request, and during the next reporting period, we plan to assess the Board's response and any actions the agency has taken in response to climate change.

Evaluation of the Board's Corporate Services

We initiated an evaluation of the Board's corporate services across all divisions, including Mail Services, Motor Transport, and Print Shop services. The objectives for this evaluation are to assess the extent to which Board staff use corporate services and to identify potential economies and efficiencies. In the Board's strategic framework for the next three years, the sixth strategic theme is to establish a cost-reduction approach for Board operations that maintains an effective and efficient use of financial resources. Accordingly, Board divisions, such as the Management Division, have linked their objectives to the strategic framework and are working to identify opportunities for potential cost savings and to improve operational efficiencies. We expect to complete our evaluation during the next semiannual reporting period.

Audit of the Board's Monitoring of Mortgage Servicers

We began an audit of the Board's efforts to monitor and ensure compliance with (1) enforcement orders against mortgage servicers issued in April 2011 and amended in February 2013 and (2) enforcement orders against bank holding companies issued in April 2011, September 2011, and April 2012, and amended in February 2013. Our audit will focus on evaluating the Board's oversight to ensure the institutions for which it has regulatory responsibility implement the terms and conditions of the enforcement orders. Under the amended orders, the Board, along with the OCC, required the mortgage servicers to establish a fund to provide borrowers, who were in foreclosure in 2009 and 2010, $3.6 billion in compensation, ranging from a few hundred dollars up to $125,000 depending on the possible servicer error. Additionally, the servicers are required to provide $5.7 billion in other foreclosure prevention assistance, such as loan modifications.

Completed Inspection and Evaluation Work at the CFPB

CFPB Contract Solicitation and Selection Processes Facilitate FAR Compliance, but Opportunities Exist to Strengthen Internal Controls
OIG Report No. 2013-IE-C-004, March 28, 2013

In our evaluation of the CFPB's contract solicitation and selection process, we reviewed certain CFPB procurement activities to assess the internal controls of the CFPB's Office of Procurement. Our objective was to determine whether the CFPB established contract solicitation and selection processes that facilitated compliance with applicable rules established by the FAR.

We found that the CFPB established internal processes and procedures to facilitate FAR compliance related to contract solicitation and selection activities; however, opportunities exist to strengthen internal controls. We found that the CFPB's processes and practices were compliant with particular FAR requirements, such as performing acquisition planning and market research, providing opportunities for companies to compete for CFPB contracts, and conducting documented evaluations of contractor selections. Nonetheless, at the time of our review, we could not determine from the documentation provided whether the CFPB's competition advocate was fulfilling each of the

responsibilities described in the FAR. Further, at the time of our review we found that the CFPB had not yet finalized certain CFPB policies and procedures that would facilitate FAR compliance in solicitation and selection activities. After we communicated our initial observations to the CFPB, the Office of Procurement issued a final revised *Procurement Review Threshold Policy*, dated October 23, 2012, and a finalized *Policy for Acquisition Planning*, dated October 25, 2012.

We also found that the CFPB had expedited contracts in some instances, based on urgent requests from program officials; however, we could not determine the reason for the urgency. Accordingly, opportunities exist to strengthen contract file documentation when the CFPB expedites the procurement process in response to urgent requests.

We recommended that the Assistant Director for Procurement develop an internal policy describing how the CFPB implements the FAR requirements pertaining to the agency's competition advocate; finalize, disseminate, and implement its Small Business Review Form to facilitate FAR compliance related to small business participation; and enhance CFPB procedures related to the documentation of urgent procurement requests. The CFPB concurred with our recommendations.

Ongoing Inspection and Evaluation Work at the CFPB

Evaluation of the CFPB's Annual Budget Process

We completed the fieldwork in our assessment of the CFPB's annual budget process. As an independent bureau within the Federal Reserve System, the CFPB is funded principally by the Federal Reserve System in amounts determined by the CFPB Director as necessary to carry out the agency's operations, subject to limits established in the Dodd-Frank Act. The CFPB prepared and publicly issued budget documents for fiscal years 2012 and 2013, which contained budgeted amounts of $356 million and $448 million, respectively. Our objective for this review is to evaluate the extent to which the CFPB's budget process facilitated the achievement of the agency's goals and performance objectives and demonstrated the agency's commitment to transparency. We plan to issue the results of our evaluation during the next semiannual reporting period.

Evaluation of the CFPB's Policies, Procedures, and Practices Associated with Agency-sponsored Conferences

In May 2012, we initiated an evaluation of the CFPB's conference-related activities. The evaluation began shortly after the General Services Administration's OIG issued a report on a conference held by that agency outside Las Vegas that noted multiple violations of the Federal Travel Regulation. The objectives of our evaluation will focus on determining the controls, policies, procedures, and practices associated with conferences. This review will cover both agency-sponsored and nonsponsored conferences. We plan to issue our report during the next semiannual reporting period.

Evaluation of the CFPB's Integration of Enforcement Attorneys into Examinations

We initiated an evaluation of the CFPB's integration of enforcement attorneys into its examinations of banking and nonbanking institutions' compliance with applicable consumer protection laws and regulations. Our objectives for this evaluation are to assess (1) the potential risks associated with this approach to conducting examinations and (2) the effectiveness of any safeguards that the CFPB has

adopted to mitigate the potential risks associated with this examination approach. We expect to complete our review and issue our report during the next semiannual reporting period.

Evaluation of the CFPB's Supervision Program

We initiated an evaluation of the CFPB's supervision program for large depository institutions and nondepository consumer financial service companies. Based on the authority granted by the Dodd-Frank Act, the CFPB began examinations of large depository institutions on July 21, 2011, and of nondepository consumer financial service companies on January 5, 2012. The objectives of our evaluation are to (1) review key program elements, including policies and procedures, examination guidance, and controls to promote consistent and timely reporting; (2) assess the approach for staffing examinations; and (3) assess the training program for examination staff. We are in the process of completing our scope development efforts and plan to issue our report before the end of the year.

Evaluation of the CFPB's Compliance with Section 1100G

We initiated an evaluation to assess the CFPB's compliance with section 1100G requirements of the Dodd-Frank Act. Section 1100G amends the Small Business Regulatory Enforcement Fairness Act of 1996 and the Regulatory Flexibility Act to require the CFPB to assess a proposed rule's economic impact and cost of credit for small entities. Among other requirements, the CFPB must perform a regulatory flexibility analysis that includes a description of (1) any projected increase in the cost of credit for small entities, (2) any significant alternatives to the proposed rule that accomplish the stated objectives of applicable statutes and that minimize any increase in the cost of credit for small entities, and (3) advice and recommendations of representatives of small entities relating to issues associated with the projected increases or alternatives. We expect to complete this project and issue our report during the next semiannual reporting period.

Evaluation of the CFPB's Hiring Process

We initiated an evaluation of the CFPB's hiring process. The objective of our evaluation is to assess the efficiency and effectiveness of three CFPB recruitment and selection subprocesses: (1) assessment and vacancy announcement creation, (2) hiring authority and vacancy announcement posting, and (3) evaluation and selection of candidates. We will also assess the agency's compliance with applicable laws, regulations, and policies and its administration of recruitment and selection incentives to recruit new employees. We are in the process of completing our fieldwork, and we plan to issue our report during the next semiannual reporting period.

Response to a Congressional Request Regarding the CFPB's Compliance with Federal Requirements for Addressing Climate Change

During this reporting period, we received a letter from the co-chairs of the Bicameral Taskforce on Climate Change regarding actions taken in response to climate change by the agencies that we oversee. As the independent oversight entity for the CFPB, we will prepare a response for the CFPB. We requested that the CFPB's General Counsel determine the federal requirements that apply as well as the CFPB's authorities to reduce emissions of heat-trapping pollution. During the next reporting period, we plan to assess the CFPB's response and any actions the agency has taken in response climate change.

Information on Nonmaterial Losses to the Deposit Insurance Fund

The FDI Act, as amended by the Dodd-Frank Act, requires the IG of the appropriate federal banking agency to report, on a semiannual basis, certain information on financial institutions that incurred nonmaterial losses to the DIF and that failed during the respective six-month period.

When bank failures result in nonmaterial losses to the DIF, the IG is required to determine (1) the grounds identified by the federal banking agency or the state bank supervisor for appointing the FDIC as receiver[2] and (2) whether the losses to the DIF present unusual circumstances that would warrant an in-depth review. If an in-depth review is not warranted, the IG is required to provide an explanation of its determination.

We review the state member bank failures to determine whether the resulting losses to the DIF exhibited unusual circumstances that would warrant an in-depth review. In general, we consider a loss to the DIF to present unusual circumstances if the conditions associated with the bank's deterioration, ultimate closure, and supervision were not addressed in any of our prior bank failure reports or involved potential fraudulent activity. To make this determination, we analyze key data from the five-year period preceding the bank's closure. These data generally comprise Federal Reserve Bank and state examination schedules; Reports of Examination, including CAMELS ratings[3] and financial data; informal and formal enforcement actions and other supervisory activities, such as visitations; and prompt corrective action determinations.

During this semiannual period, there were no failed state member banks with losses to the DIF that did not meet the materiality threshold requiring an OIG review, which currently is a loss in excess of $150.0 million.

2. Typically, the state closes state member banks and appoints the FDIC as receiver.

3. The CAMELS acronym represents six components: **c**apital adequacy, **a**sset quality, **m**anagement practices, **e**arnings performance, **l**iquidity position, and **s**ensitivity to market risk.

Investigations

The OIG's Investigations office conducts criminal, civil, and administrative investigations related to Board and CFPB programs and operations. The OIG operates under statutory law enforcement authority granted by the U.S. Attorney General, which vests our special agents with the authority to carry firearms, make arrests without a warrant, seek and execute search and arrest warrants, and seize evidence. OIG investigations are conducted in compliance with CIGIE's *Quality Standards for Investigations*.

Investigative Activities

During this reporting period, we opened 6 cases and ended the period with 54 investigations in progress. Due to the sensitivity of these investigations, we only report on activities that have resulted in criminal, civil, or administrative action. The following summaries highlight our significant investigative activity during this semiannual reporting period.

Business Owner Sentenced for Bank Fraud

On March 14, 2013, the former owner of an Illinois agricultural business was sentenced to 14 months in prison and 5 years' supervised release and was ordered to pay over $9.8 million in restitution. As previously reported, on September 29, 2011, the former owner was indicted on charges that he overstated the accounts receivable of his business to obtain a $10 million line of credit. The OIG initiated this investigation after receiving information alleging loan fraud at Peoples Bank and Trust, a Board-regulated institution.

According to the indictment, from 2006 to June 2008, the former owner obtained a substantial amount of financing from Corn Belt Bank. In May 2008, when Corn Belt Bank was no longer able to provide sufficient financial support, the former owner arranged for financing with Peoples Bank and Trust, which included the $10 million line of credit. The purposes of the loan included financing the operations of the business and paying off a prior loan from Corn Belt Bank. Corn Belt Bank purchased a 20 percent participation in the loan. In February 2009, Corn Belt Bank was placed in receivership.

The indictment alleged that the former owner provided false information to Peoples Bank and Trust to secure the $10 million line of credit. As part of the loan process, the former owner provided fraudulent reports regarding the financial status of his business and the status of collateral, including his accounts receivable, so that Peoples Bank and Trust would approve and fund the $10 million line of credit. The indictment further alleged that after the line of credit was approved and funded, the former owner continued to provide false information to Peoples Bank and Trust. Ultimately, the business defaulted on the loan, resulting in a loss of most of the $10 million Peoples Bank and Trust loaned to the business.

We conducted this investigation with the Federal Bureau of Investigation (FBI) and the FDIC OIG. The case was prosecuted by the U.S. Attorney's Office for the Eastern District of Missouri.

Real Estate Developer Indicted for Conspiracy to Commit Bank Fraud, Money Laundering, and Making a False Statement to a Financial Institution

On January 23, 2013, a federal grand jury indicted a Wilmington, Delaware, real estate developer on numerous bank fraud–related charges. The developer was charged with one count of conspiracy to commit bank fraud and seven counts of making a false statement to a financial institution. The indictment also charged the developer with one count of money laundering in violation of 18 U.S.C. § 1957.

According to the indictment, the developer obtained financing in excess of $37 million from Wilmington Trust Company, a subsidiary of Wilmington Trust Corporation, a Board-regulated bank holding company, in connection with three development projects. In March 2011, prior to its acquisition by M&T Bank, Wilmington Trust sold the debt associated with these as well as other projects involving the developer. Wilmington Trust's incurred losses on these three projects alone exceeded $26 million.

The indictment further alleged that in 2007 and 2008, in connection with the three development projects, the developer and uncharged co-conspirators submitted false draw requests for payment from the bank and requested and received advanced funds in violation of the terms of the loan agreements with Wilmington Trust. According to the indictment, the developer requested and received $150,000 in funds from Wilmington Trust that he represented to be for A/E costs, but instead used the money to finance acquisition of a personal interest in a development in the Bahamas.

This is a joint investigation with the FBI, the Internal Revenue Service (IRS) Criminal Investigation, SIGTARP, and the U.S. Attorney's Office for the District of Delaware.

Former Senior Executives of the Bank of the Commonwealth and a Local Real Estate Developer Indicted for Bank Fraud

Previously, 12 individuals associated with the Bank of the Commonwealth investigation were charged in the Eastern District of Virginia with bank fraud, conspiracy to commit bank fraud, false entries, false statements to a financial institution, and misapplication of bank funds. To date, 7 defendants have entered guilty pleas to the charges: 3 of the 7 defendants have been sentenced to a total of 308 months in prison and $32 million in restitution, and sentencing for the remaining 4 is scheduled for May 2013. The trial for the 5 defendants who did not enter guilty pleas began March 19, 2013.

According to the superseding indictment, in 2006 executives at the Bank of the Commonwealth began an aggressive expansion beyond its traditional lending focus in Norfolk and Virginia Beach to include opening branches in northeastern North Carolina and the Outer Banks. By December 2009, the bank's assets reached $1.3 billion largely through an increase in brokered deposits. The indictment alleges that many of the Bank of the Commonwealth's loans were funded and administered without regard to industry standards and their own lending policy and internal controls. By the end of 2008, the volume of troubled loans and foreclosed real estate soared and negatively impacted the bank's capital. From 2008 through 2011, the Bank of the Commonwealth executives allegedly masked the bank's true financial condition out of fear that the bank's declining state would negatively impact investor and customer confidence. They were also allegedly concerned that regulators would downgrade the bank and restrict it from accepting brokered deposits.

To hide the bank's troubled assets, executives allegedly overdrew demand deposit accounts to make loan payments, used funds from related entities (without authorization from the borrower) to make loan payments, used change-in-terms agreements to make loans appear current, and extended new loans or additional principal on existing loans to cover payment shortfalls.

In addition, the indictment alleges that bank executives provided preferential financing to troubled borrowers to purchase bank-owned properties. These troubled borrowers were already having difficulty making payments on their existing loans; however, the financing allowed the bank to convert a nonperforming asset into a performing asset. In addition, the troubled borrowers obtained cash at closing to make payments on their other loans at the bank or for their own personal purposes. The indictment also alleges that troubled borrowers purchased or attempted to purchase property owned by bank insiders and that many of these real estate loans were fraudulently funded by the bank.

The Bank of the Commonwealth was closed by the regulators in 2011, and the FDIC estimates the loss to the DIF to be $268 million. This investigation is being worked jointly with the FBI, the FDIC OIG, the IRS Criminal Investigation, and SIGTARP. The case is being prosecuted by the U.S. Attorney's Office for the Eastern District of Virginia.

Former Bank President and Other Officers Indicted in Massive Fraud That Preceded the Collapse of First National Bank

On January 11, 2013, the former president and six other officers of First National Bank of Savannah were indicted by a federal grand jury, accused of defrauding First National Bank of Savannah and other banks out of millions of dollars. The long-running scheme allegedly contributed to the failure of First National Bank of Savannah in 2010, which would result in a loss to the DIF of over $90 million. The OIG initiated this investigation based on a referral by the FDIC OIG. First National Bank of Savannah was a wholly owned subsidiary of First National Corporation, a Board-regulated bank holding company.

According to the indictment, as First National Bank of Savannah's financial condition began to deteriorate, the defendants conspired to hide from the bank, members of the bank's board of directors, and federal regulators millions of dollars in nonperforming loans. The defendants accomplished this by unlawfully lending money to unqualified nominees to make interest and other payments on nonperforming loans. In addition, the defendants enticed others to take over nonperforming loans with hidden promises, side deals, and other terms unfavorable to First National Bank of Savannah. The defendants also recruited other banks to fund nonperforming loans based on fraudulent misrepresentations about the quality of the loans. The defendants, in furtherance of their scheme, allegedly falsified and fabricated numerous bank documents and records.

This case is the result of a joint investigation conducted with the FDIC OIG, SIGTARP, and the U.S. Secret Service. The case is being prosecuted by the U.S. Attorney's Office for the Southern District of Georgia.

Five Individuals Indicted in Connection with Bank Fraud, Money Laundering, and Receipt of Stolen Property

On November 13, 2012, five individuals were indicted by a federal grand jury on several counts, including conspiracy to receive stolen property, structuring financial transactions to evade reporting requirements, and false statements to a financial institution.

As previously reported, the OIG initiated this investigation based on a request from the U.S. Attorney's Office, Charleston, South Carolina, regarding leads developed during a prior OIG investigation that resulted in the arrests of several individuals who were involved in bank fraud, money laundering, operating unlicensed money service businesses, and conspiracy in South Carolina and North Carolina. On November 30, 2011, agents from the OIG and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) executed simultaneous search and arrest warrants in Charleston and Columbia, South Carolina, and in Charlotte, North Carolina, based on an indictment

filed in the Western District of North Carolina. The OIG's investigation was based on money laundering and bank and loan application fraud by these individuals and was merged into an ongoing ATF undercover investigation that involved the cash sale of over $7.5 million in "stolen cigarettes" to the same defendants from September 2009 to September 2011. During the course of their investigation, ATF identified several individuals believed to be financial contributors to the undercover sales. Several of the meetings with the defendants occurred at various Discount Stores located in South Carolina that are owned or operated by the individuals identified above.

This is a joint investigation with the ATF, the IRS Criminal Investigation, the Charlotte Mecklenburg Police Department, and the Treasury OIG. The case is being prosecuted by the U.S. Attorney's Office for South Carolina.

Chief Financial Officer Indicted for Bank Fraud

On March 6, 2013, an individual who was the chief financial officer of a building supply company and a member of Blue Jay Properties, LLC, was indicted by a federal grand jury on one count of bank fraud and one count of money laundering. The OIG initiated this investigation in July 2012 based on information received from the FDIC OIG that the individual provided false information to University National Bank of Lawrence, Kansas, to support a $15.2 million construction loan to Blue Jay Properties, LLC, to fund an apartment building project in Junction City, Kansas.

According to the indictment, the individual and other members of Blue Jay Properties, LLC, needed to provide over $1.2 million in collateral to University National Bank as part of the terms of the loan. To satisfy the bank's collateral requirements, the chief financial officer allegedly wrote a letter to University National Bank falsely representing that all the lumber for the project, pledged as collateral on the loan, was prepaid in full and being held by the building supply company. The indictment also alleges that as part of the scheme, the individual made a wire transfer of the money obtained through the bank fraud against University National Bank.

This is a joint investigation with the IRS Criminal Investigation, the FDIC OIG, and the U.S. Department of Labor. This case is being prosecuted by the U.S. Attorney's Office for the District of Kansas.

Summary Statistics on Investigations during the Reporting Period[a]

Investigative actions	Number
Investigative caseload	
Investigations open at end of previous reporting period	48
Investigations opened during reporting period	6
Investigations closed during reporting period	0
Total investigations open at end of reporting period	54
Investigative results for reporting period	
Referred to prosecutor	0
Joint investigations	50
Referred for audit	0
Referred for administrative action	0
Oral and/or written reprimands	0
Terminations of employment	0
Arrests	2
Suspensions	0
Debarments	0
Indictments	14
Criminal information	0
Convictions	2
Monetary recoveries	$0
Civil actions (fines and restitution)	$0
Criminal fines, restitution, and forfeitures	$9,862,086

a. Some of the investigative numbers may include data also captured by other OIGs.

Hotline Activities

Individuals are encouraged to report fraud, waste, abuse, or mismanagement related to the programs or operations of the Board or the CFPB by contacting the OIG Hotline. Hotline staff can be reached via mail, telephone, fax, or e-mail. The Hotline is staffed by OIG analysts who review all incoming communications, research and analyze the issues raised, and determine how to best address the complaint. During this reporting period, the Hotline received 423 complaints.

The OIG Hotline continued to receive a significant number of complaints from individuals seeking information about or wanting to file noncriminal consumer complaints against financial institutions. Hotline staff analyzes these complaints and typically refers the complainant to the consumer group of the appropriate federal regulator for the institution involved, such as the OCC Customer Assistance Group. Additionally, CFPB Consumer Response accepts complaints from consumers regarding credit cards, student loans, mortgages, and other consumer financial products and services. As appropriate, Hotline staff has referred individuals to CFPB Consumer Response for assistance.

The OIG continued to receive a significant number of complaints involving suspicious solicitations invoking the name of the Federal Reserve or the Chairman of the Board of Governors. Hotline staff continues to advise all individuals that these "spam" e-mails are solicitations that attempt to obtain the personal and/or financial information of the recipient and that neither the Board nor the Federal Reserve Banks endorse or have any involvement in them. As appropriate, the OIG may investigate these complaints.

During this reporting period, as part of its outreach efforts, the OIG distributed Hotline posters to all Board and CFPB divisions, as well as Hotline magnets to all Board and CFPB employees. OIG staff also continues to present information about the OIG and its Hotline to new employees of the Board and the CFPB at their respective orientation sessions.

Summary Statistics on Hotline Activities during the Reporting Period

Hotline complaints	Number
Complaints pending from previous reporting period	6
Complaints received during reporting period	423
Total complaints for reporting period	429
Complaints resolved during reporting period	413
Complaints pending	16

Legal Services

The Legal Services program serves as the independent legal counsel to the IG and the OIG staff. The Legal Services staff provides comprehensive legal advice, research, counseling, analysis, and representation in support of OIG audits, investigations, inspections, evaluations, and other professional, management, and administrative functions. This work provides the legal basis for the conclusions, findings, and recommendations contained within OIG reports. Moreover, Legal Services keeps the IG and the OIG staff aware of recent legal developments that may affect the activities of the OIG, the Board, and the CFPB.

In accordance with section 4(a)(2) of the IG Act, the Legal Services staff conducts an independent review of newly enacted and proposed legislation and regulations to determine their potential effect on the economy and efficiency of the Board's and the CFPB's programs and operations. During this reporting period, Legal Services reviewed 26 legislative and 4 regulatory items.

Communications and Coordination

The OIG's primary mission is to enhance the economy, efficiency, and effectiveness of Board and CFPB programs and operations, and we coordinate externally and work internally to achieve our goals and objectives. Externally, we regularly coordinate with and provide information to Congress and congressional staff. We also are active members of the broader IG professional community and promote collaboration on shared concerns. Internally, we consistently strive to enhance and maximize efficiency and transparency in our infrastructure and day-to-day operations. Within the Board, the CFPB, and the Federal Reserve System, we continue to provide information about the OIG's roles and responsibilities. In addition, we participate in an advisory capacity on various Board work groups. Highlights of these activities follow.

Congressional Coordination and Testimony

The OIG communicates and coordinates with various congressional committees on issues of mutual interest. During the reporting period, we provided 12 responses to congressional members and staff concerning the Board and the CFPB.

Council of Inspectors General on Financial Oversight

Consistent with the Dodd-Frank Act, CIGFO is required to meet at least quarterly to facilitate the sharing of information among the IGs and to discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. During this reporting period, CIGFO met on December 11, 2012, and March 28, 2013. The Dodd-Frank Act authorizes CIGFO, by a majority vote, to convene a working group to evaluate the effectiveness and internal operations of FSOC. As discussed on pages 11 and 14, in 2013 CIGFO convened a working group to examine the rules, procedures, and practices established by FSOC and its member agencies to designate FMUs as systemically important and therefore subject to the requirements of title VIII of the Dodd-Frank Act. In addition, the working group made inquiries regarding FSOC's processes to designate payment, clearing, and settlement activities conducted by financial institutions as systemically important. In addition, CIGFO is required to annually issue a report that highlights the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO will issue its third annual report in July 2013.

Council of the Inspectors General on Integrity and Efficiency and IG Community Involvement

The IG serves as a member of CIGIE, which provides a forum for IGs from various government agencies to discuss government-wide issues and shared concerns. Collectively, the members of CIGIE work toward improving government programs and operations. The IG also serves as a member of CIGIE's Legislation Committee and Inspection and Evaluation Committee and leads the Information Technology Subcommittee of the Legislation Committee. The Legislation Committee is the central point of information regarding legislative initiatives and congressional activities that may affect the

community, such as proposed cybersecurity legislation that was reviewed during the reporting period. The Inspection and Evaluation Committee provides leadership for the inspection and evaluation community's efforts to improve agency program effectiveness by maintaining professional standards, leading the development of protocols for reviewing management issues that cut across departments and agencies, promoting the use of advanced program evaluation techniques, and fostering awareness of evaluation and inspection practices in OIGs.

The Associate IG for Legal Services serves as Chair of the Council of Counsels to the IG, and Legal Services staff attorneys are members of the council. In addition, the Associate IG for Audits and Attestations serves as chair of the IT Committee of the Federal Audit Executive Council and works with audit staff throughout the IG community on common information technology audit issues.

Financial Regulatory Coordination

To foster cooperation on issues of mutual interest, including issues related to the current financial crisis, the IG communicates periodically with the IGs from other federal financial regulatory agencies: the FDIC, Treasury, the National Credit Union Administration, the Securities and Exchange Commission, the Farm Credit Administration, the Commodity Futures Trading Commission, the Pension Benefit Guaranty Corporation, the Export-Import Bank, and the Federal Housing Finance Agency. In addition, the Associate IG for Audits and Attestations and the Associate IG for Inspections and Evaluations meet with their financial regulatory agency OIG counterparts to discuss various topics, including bank failure material loss review best practices, annual plans, and ongoing projects. We also coordinate with the Government Accountability Office regarding financial regulatory and other related issues.

Appendixes

Appendix 1a

Audit, Inspection, and Evaluation Reports Issued to the Board with Questioned Costs during the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the Board is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Appendix 1b

Audit, Inspection, and Evaluation Reports Issued to the CFPB with Questioned Costs during the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the CFPB is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Appendix 2a

Audit, Inspection, and Evaluation Reports Issued to the Board with Recommendations That Funds Be Put to Better Use during the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the Board is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Appendix 2b

Audit, Inspection, and Evaluation Reports Issued to the CFPB with Recommendations That Funds Be Put to Better Use during the Reporting Period[a]

Reports	Number	Dollar value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the CFPB is primarily a regulatory and policymaking agency, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation typically is not readily quantifiable.

Appendix 3a

OIG Reports to the Board with Recommendations That Were Open during the Reporting Period[a]

Report title	Issue date	Recommendations			Status of recommendations		
		No.	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Evaluation of Service Credit Computations	08/05	3	3	–	03/07	1	2
Security Control Review of the Internet Electronic Submission System (Nonpublic Report)	02/07	13	13	–	03/13	13	–
Security Control Review of the FISMA Assets Maintained by FRB Boston (Nonpublic Report)	09/08	11	11	–	09/11	10	1
Evaluation of Data Flows for Board Employee Data Received by OEB and Its Contractors (Nonpublic Report)	09/08	2	2	–	03/11	1	1
Audit of Blackberry and Cell Phone Internal Controls	03/09	3	3	–	03/13	3	–
Security Control Review of the Audit Logging Provided by the Information Technology General Support System (Nonpublic Report)	03/09	4	4	–	09/11	3	1
Security Control Review of the Lotus Notes and Lotus Domino Infrastructure (Nonpublic Report)	06/10	10	10	–	–	–	10
Security Control Review of the Internet Electronic Submission System (Nonpublic Report)	12/10	6	6	–	03/13	3	3
Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings	06/11	2	2	–	–	–	2
Review of the Failure of Pierce Commercial Bank	09/11	2	2	–	–	–	2
Security Control Review of the Visitor Registration System (Nonpublic Report)	09/11	10	10	–	–	–	10
Summary Analysis of Failed Bank Reviews	09/11	3	3	–	03/13	2	1
Evaluation of Prompt Regulatory Action Implementation	09/11	1[b]	1	–	–	–	1
Audit of the Board's Information Security Program	11/11	1	1	–	11/12	–	1
Review of RBOPS' Oversight of the Next Generation $100 Note	01/12	2	2	–	–	–	2
Security Control Review of the National Remote Access Services System (Nonpublic Report)	03/12	8	8	–	–	–	8
Material Loss Review of the Bank of the Commonwealth	04/12	4	4	–	03/13	3	1
Security Control Review of the Board's Public Website (Nonpublic Report)	04/12	12	12	–	–	–	12
Review of the Unauthorized Disclosure of a Confidential Staff Draft of the Volcker Rule Notice of Proposed Rulemaking	07/12	3	3	–	–	–	3
Security Control Review of the Federal Reserve Bank of Richmond's Lotus Notes Systems Supporting the Board's Division of Banking Supervision and Regulation (Nonpublic Report)	08/12	9	9	–	–	–	9
Inspection of the Board's Protective Services Unit (Nonpublic Report)	08/12	6	6	–	03/13	6	–

Appendix 3a—continued

Report title	Issue date	Recommendations			Status of recommendations		
		No.	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Audit of the Small Community Bank Examination Process	08/12	1	1	–	–	–	1
Audit of the Board's Government Travel Card Program	09/12	4	4	–	–	–	4
Audit of the Board's Actions to Analyze Mortgage Foreclosure Processing Risks	09/12	2	2	–	–	–	2
Security Control Review of the Aon Hewitt Employee Benefits System (Nonpublic Report)	09/12	8	8	–	–	–	8
2012 Audit of the Board's Information Security Program	11/12	2	2	–	–	–	2
Security Control Review of Contingency Planning Controls for the Information Technology General Support System (Nonpublic Report)	12/12	5	5	–	–	–	5
Review of the Failure of Bank of Whitman	03/13	1	1	–	–	–	1
Controls over the Board's Purchase Card Program Can Be Strengthened	03/13	3	3	–	–	–	3

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

b. This recommendation was directed jointly to the OCC, the FDIC, and the Board.

Appendix 3b

OIG Reports to the CFPB with Recommendations That Were Open during the Reporting Period[a]

Report title	Issue date	Recommendations			Status of recommendations		
		No.	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Evaluation of the Consumer Financial Protection Bureau's Consumer Response Unit	09/12	5	5	–	–	–	5
2012 Audit of the Consumer Financial Protection Bureau's Information Security Program	11/12	3	3	–	–	–	3
Security Control Review of the Consumer Financial Protection Bureau's Consumer Response System (Nonpublic Report)	03/13	9	9	–	–	–	9
CFPB Contract Solicitation and Selection Processes Facilitate FAR Compliance, but Opportunities Exist to Strengthen Internal Controls	03/13	3	3	–	–	–	3

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

Appendix 4a

Audit, Inspection, and Evaluation Reports Issued to the Board during the Reporting Period

Title	Type of report
Reviews of Bank Failures	
Review of the Failure of Bank of Whitman	Evaluation
Information Technology Audits	
2012 Audit of the Board's Information Security Program	Audit
Security Control Review of Contingency Planning Controls for the Information Technology General Support System (Nonpublic Report)	Audit
Program Audits, Inspections, and Evaluations	
No Changes Recommended to Freedom of Information Act Exemption Included in the Amended Federal Reserve Act	Evaluation
Audit of the Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Report	Audit
Audit of the Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Report	Audit
Status of the Transfer of Office of Thrift Supervision Functions	Evaluation
Controls over the Board's Purchase Card Program Can Be Strengthened	Audit
Audit Observations on the Board' s Planning and Contracting Process for the Martin Building Construction, Renovation, and Relocation of Staff	Audit

Total number of audit reports: 6
Total number of inspection and evaluation reports: 3

Full copies of the public reports are available on our website:
http://www.federalreserve.gov/oig/default.htm

Appendix 4b

Audit, Inspection, and Evaluation Reports Issued to the CFPB during the Reporting Period

Title	Type of report
Program Audits, Inspections, and Evaluations	
CFPB Contract Solicitation and Selection Processes Facilitate FAR Compliance, but Opportunities Exist to Strengthen Internal Controls	Evaluation
Information Technology Audits	
2012 Audit of the Consumer Financial Protection Bureau's Information Security Program	Audit
Security Control Review of the Consumer Financial Protection Bureau's Consumer Response System (Nonpublic Report)	Audit

Total number of audit reports: 2
Total number of inspection and evaluation reports: 1

Full copies of the public reports are available on our website:
http://www.federalreserve.gov/oig/default.htm

Appendix 5
OIG Peer Reviews

Government auditing and investigative standards require that our audit and investigative units each be reviewed by a peer OIG organization every three years. Section 989C of the Dodd-Frank Act amended the IG Act to require that OIGs provide in their semiannual reports to Congress specified information regarding (1) peer reviews of their respective organizations and (2) peer reviews they have conducted of other OIGs. The following information addresses these Dodd-Frank Act requirements.

- The last peer review of the OIG's audit organization was completed in December 2011 by the Pension Benefit Guaranty Corporation OIG. We received a peer review rating of *pass*. There were no report recommendations, nor were any peer review recommendations pending from any previous peer reviews of our audit organization.

- The last peer review of the OIG's Investigations program was completed in March 2008 by the U.S. Government Printing Office OIG. No recommendations from this or any prior peer reviews are pending. On June 9, 2010, the U.S. Attorney General approved the OIG's request for statutory law enforcement authority. As a result and in accordance with Attorney General guidelines, the next peer review of the Investigations office is due three years from the date of receiving statutory law enforcement authority.

- During this reporting period, we completed a review of the system of internal safeguards and management procedures in effect during May 1, 2011, through May 18, 2012, for the investigative functions of the OIG for the Corporation for National and Community Service (CNCS). Our review was conducted in conformity with CIGIE and Attorney General guidelines, as applicable. In our opinion, the system of internal safeguards and management procedures for the investigative function of the CNCS OIG in effect during the period May 1, 2011, through May 18, 2012, is compliant with the quality standards established by CIGIE and the applicable Attorney General guidelines. These safeguards and procedures provide reasonable assurance of the CNCS OIG's conformance with professional standards in the planning, execution, and reporting of its investigations. The CNCS IG concurred with our recommendation and indicated that her staff is taking actions to implement our recommendation. There were no open recommendations for the CNCS OIG from prior peer reviews.

Copies of peer review reports of our organization are available on our website:
http://www.federalreserve.gov/oig/peer_review_reports.htm

Appendix 6

Index of IG Act Reporting Requirements

Section	Subject	Page(s)
4(a)(2)	Review of legislation and regulations	31
5(a)(1)	Significant problems, abuses, and deficiencies	None
5(a)(2)	Recommendations with respect to significant problems	None
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed	None
5(a)(4)	Matters referred to prosecutorial authorities	29
5(a)(5); 6(b)(2)	Summary of instances where information was refused	None
5(a)(6)	List of audit, inspection, and evaluation reports	38
5(a)(7)	Summary of particularly significant reports	None
5(a)(8)	Statistical table of questioned costs	34
5(a)(9)	Statistical table of recommendations that funds be put to better use	35
5(a)(10)	Summary of audit, inspection, and evaluation reports issued before the commencement of the reporting period for which no management decision has been made	None
5(a)(11)	Significant revised management decisions made during the reporting period	None
5(a)(12)	Significant management decisions with which the Inspector General is in disagreement	None
5(a)(14), (15), and (16)	Peer review summary	39

Abbreviations

Abbreviation	Description
A/E	Architectural and engineering
ATF	Bureau of Alcohol, Tobacco, Firearms, and Explosives
Board	Board of Governors of the Federal Reserve System
BS&R	Division of Banking Supervision and Regulation
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CNCS	Corporation for National and Community Service
CRS	Consumer Response System
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FISMA	Federal Information Security Management Act of 2002
FMU	Financial Market Utility
FOIA	Freedom of Information Act
FRA	Federal Reserve Act
FRB San Francisco	Federal Reserve Bank of San Francisco
FSOC	Financial Stability Oversight Council
IG	Inspector General
IG Act	Inspector General Act of 1978, as amended
IRS	Internal Revenue Service
ISO	Information Security Officer
IT	Information Technology
IT GSS	General Support System supported by the Division of Information Technology

Abbreviation	Description
JPMC	JPMorgan Chase
NIST	National Institute of Standards and Technology
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
SIC	Secure Inventory Closet
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury

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