



SEMIANNUAL REPORT TO CONGRESS

October 1, 2014–March 31, 2015



OFFICE OF INSPECTOR GENERAL

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

SEMIANNUAL REPORT TO CONGRESS

October 1, 2014–March 31, 2015



OFFICE OF INSPECTOR GENERAL

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

Message From the Inspector General



Mark Bialek
Inspector General

The last six months have brought increased congressional scrutiny on both the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB). As the Office of Inspector General for both agencies within the unique framework of the Federal Reserve System, we continue to provide the vigorous oversight that Congress is seeking. Indeed, the audits and evaluations we completed during this reporting period in the areas of financial supervision, information technology, and the workforce highlight how our work cuts across the Board's and the CFPB's programs and operations, allowing us to effectively maximize the economies of our oversight resources. Moreover, these areas track the management challenges that we announced for both agencies in the previous reporting period.

For example, in the area of financial supervision, we issued a report on the Board's and the Federal Reserve Bank of New York's consolidated and other supervisory activities related to the losses incurred by JPMorgan Chase & Company's Chief Investment Office, commonly referred to as the London Whale story. By focusing on the associated consolidated supervision, our evaluation addressed an aspect of the London Whale story that had not been a focus of prior reviews released to the public. Our recommendations seek to improve the effectiveness of consolidated supervision and other supervisory activities. Due in part to our work in this area, the Board has requested that we evaluate the Federal Reserve System's practices for addressing divergent views as part of the process of making supervisory decisions regarding large bank holding companies.

In addition, during this reporting period, we continued our evaluation of the coordination between the CFPB and other regulatory agencies with respect to conducting supervisory activities, as well as the effectiveness of the CFPB's documentation of its supervisory examinations. We will continue to focus our efforts on the Federal Reserve System's supervisory activities related to large, complex financial institutions as well as the CFPB's supervision program.

We believe that information technology issues and cybersecurity are of paramount importance to both the Board and the CFPB. As a result, two years ago we established an Office of Information Technology to focus our resources in this area. Nearly 50 percent of the reports we issued during this

reporting period address information technology issues, including annual assessments of each agency's information security program. We will continue to focus our efforts in this area and are working to integrate information security assessments into our general audits.

We also completed congressionally requested reviews of the Board's and the CFPB's activities related to diversity and inclusion, including both agencies' establishment of an Office of Minority and Women Inclusion, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Office of Minority and Women Inclusion is responsible for all agency matters relating to diversity in management. Our reports made significant recommendations to enhance the agencies' operations in these areas.

Finally, regarding our investigative program, we have been discussing with both the Board and the CFPB our investigative strategies so that we can enhance our investigations of potential impediments to the Board's and the CFPB's ability to carry out their supervisory and regulatory responsibilities over the entities they supervise. We have also increased our regional presence to engage directly with our agencies' regional personnel and programs, namely, the 12 Federal Reserve Banks that supervise financial institutions under delegated authority from the Board and regional CFPB supervision staff. During this reporting period, I had the pleasure of opening three of our four planned Office of Investigations regional offices, in Miami, San Francisco, and Chicago. We expect that the fourth regional office, in New York City, will open later this year.

My thanks go to the Board and the CFPB, for their continued support of our efforts to improve the efficiency and effectiveness of their programs and operations, and to our staff, for their dedication to our mission and their exemplary work during this reporting period.

Sincerely,

Mark Bialek
Inspector General



April 30, 2015

Contents

Highlights	1
Introduction	5
Audits, Evaluations, and Inspections	9
<i>Board of Governors of the Federal Reserve System</i>	10
<i>Consumer Financial Protection Bureau</i>	23
Failed State Member Bank Reviews	31
<i>Material Loss Reviews</i>	31
<i>Nonmaterial Loss Reviews</i>	31
Investigations	33
<i>Board of Governors of the Federal Reserve System</i>	33
<i>Consumer Financial Protection Bureau</i>	37
Hotline	41
Legislative and Regulatory Review, Congressional and Media Activities, and CIGIE Participation	43
<i>Legislative and Regulatory Review</i>	43
<i>Congressional and Media Activities</i>	44
<i>CIGIE Participation</i>	44
Peer Reviews	47
Abbreviations	49

Highlights

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, Evaluations, and Inspections

13
reports issued

9 Board
4 CFPB

48
recommendations closed

30 Board
18 CFPB

The CFPB's Diversity and Inclusion Efforts. We determined that the CFPB has taken steps to foster a diverse and inclusive workforce. We identified four areas of the CFPB's diversity and inclusion efforts that can be enhanced: training; data quality and monitoring trends; supervisors' and senior managers' accountability for diversity and inclusion; and succession planning. This audit was conducted in response to a congressional request.

The Board's Diversity and Inclusion Efforts. We determined that the Board has established diversity and inclusion practices that are embedded in its longstanding equal employment opportunity (EEO) programs. We identified four areas of the Board's diversity and inclusion efforts that can be enhanced: tracking and analyzing certain types of workforce data; increasing interaction between the Board's Office of Diversity and Inclusion and all Board divisions as well as providing diversity and inclusion and EEO training on a regular basis; formalizing standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce; and finalizing and implementing the Board's

diversity strategic plan. This audit was conducted in response to a congressional request.

The Federal Reserve’s Supervisory Activities Related to the Loss at JPMorgan Chase & Company’s Chief Investment Office.

We found that there was a missed opportunity for the Federal Reserve Bank of New York (FRB New York) and the Office of the Comptroller of the Currency (OCC) to discuss risks related to JPMorgan Chase & Company’s Chief Investment Office and consider how to deploy the agencies’ collective resources most effectively. We also found that (1) Federal Reserve and OCC staff lacked a common understanding of the Federal Reserve’s approach for examining Edge Act corporations, (2) FRB New York staff were not clear about the expected deliverables resulting from continuous monitoring activities, and (3) FRB New York’s JPMorgan Chase & Company supervisory teams appeared to exhibit key-person dependencies.

The Board’s Contingency Planning and Continuity of Operations Program.

We found that the Board has developed a strategy and taken a number of actions to ensure the continuous operation of critical missions and essential functions in any emergency. Our audit identified areas in which the Board could improve its program to better ensure the timely recovery of mission-essential functions and systems.

The Board’s Information Security Program. We found that the Board’s Chief Information Officer is maintaining a Federal Information Security Management Act of 2002 (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 and the Office of Management and Budget. We identified opportunities for improvement in the areas of plans of action and milestones, contractor systems, and continuous monitoring.

The CFPB’s Information Security Program. We found that the CFPB continues to take steps to mature its information security program and to ensure that it is consistent with the requirements of FISMA. Overall, we found that the CFPB’s information security program is consistent with 9 of 11 information security areas. Although corrective actions are underway, further improvements are needed in security training and contingency planning. While we

found that the CFPB's information security program was generally consistent with the requirements for continuous monitoring, configuration management, and incident response, we identified opportunities to strengthen these areas through automation and centralization.

Investigations

13
cases opened

16
cases closed

22
matters for prosecutorial consideration

13
indictments

\$25,095,582
in criminal fines, restitution, and forfeiture

Guilty Pleas for Two United Commercial Bank Officials; Conviction for a Third. On October 7, 2014, a former Vice President of United Commercial Bank (UCB) pleaded guilty to charges of conspiracy to commit false bank entries, reports, and transactions related to his preparation of false and misleading reports. On December 9, 2014, a former Chief Financial Officer of UCB pleaded guilty to one count of conspiracy to make a materially false and misleading statement to an accountant. On March 25, 2015, a federal jury convicted the former UCB Chief Operating Officer and Chief Credit Officer of seven felony counts of conspiracy, securities fraud, and other corporate fraud offenses stemming from the bank's failure.

Six Individuals Charged in Alleged Home Loan Modification

Services Scheme. On March 6, 2015, a 40-count federal indictment was unsealed in U.S. District Court in Salt Lake City, Utah, charging six individuals with conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering, in an alleged scheme to market and sell home loan modification services under the guise of a law firm. The CFPB regulates mortgage service providers, unless such services are provided by a law firm. We investigated this matter, in part, to determine whether any misrepresentations were made to the CFPB in an effort to obstruct the agency’s enforcement program.

Introduction

Congress established the OIG as an independent oversight authority of the Board and the CFPB. In fulfilling this responsibility, the OIG conducts audits, evaluations, investigations, and other reviews related to Board and CFPB programs and operations. By law, OIGs are not authorized to perform program functions.

In accordance with the Inspector General Act of 1978, as amended, our office has the following responsibilities:

- to conduct and supervise independent and objective audits, evaluations, 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, including the following:

- Section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requires that the OIG review Board-supervised financial institutions that failed when the failure resulted in a material loss to the Deposit Insurance Fund (DIF) and produce a report within six months. Section 38(k) also requires that the OIG conduct an in-depth review of any nonmaterial losses to the DIF that exhibit unusual circumstances.
- 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. The

OIG is to evaluate the effectiveness of the Board's supervision, identify any acts or omissions by the Board that contributed to or could have prevented the company's receivership status, and recommend appropriate administrative or legislative action.

- Section 989E of the Dodd-Frank Act established the Council of Inspectors General on Financial Oversight (CIGFO).¹ CIGFO is required to meet at least quarterly to share information and discuss the ongoing work of each Inspector General (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 an annual report 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, 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.
- FISMA, as amended by the Federal Information Security Modernization Act of 2014, established a legislative mandate for ensuring the effectiveness of information security controls over resources that support federal operations and assets. In accordance with FISMA requirements, we perform annual independent reviews of the Board's and the CFPB's information security program and practices, including the effectiveness of security controls and techniques for selected information systems.
- The Government Charge Card Abuse Prevention Act of 2012 requires our office to conduct periodic risk assessments and audits of the CFPB's purchase card, convenience check, and travel card programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments.

1. CIGFO comprises the Inspectors General of the Board and the CFPB, the Commodity Futures Trading Commission, the U.S. Department of Housing and Urban Development, the U.S. Department of the Treasury, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, the Securities and Exchange Commission, and the Office of the Special Inspector General for the Troubled Asset Relief Program.

- The USA Patriot Act of 2001 grants the Board certain federal law enforcement authorities. Our office performs the external oversight function for the Board's law enforcement program.
- Section 11B of the Federal Reserve Act mandates annual independent audits of the financial statements of each Federal Reserve Bank and of the Board. The Board performs the accounting function for the Federal Financial Institutions Examination Council (FFIEC), and we oversee the annual financial statement audits of the Board and of the FFIEC.² Under the Dodd-Frank Act, the U.S. Government Accountability Office performs the financial statement audit of the CFPB.
- The Improper Payments Information Act of 2002, as amended (IPIA), requires agency heads to periodically review and identify programs and activities that may be susceptible to significant improper payments. The CFPB has determined that the CFPB's Civil Penalty Fund is subject to IPIA. The Improper Payments Elimination and Recovery Act of 2010 requires our office to determine, each fiscal year, whether the agency is in compliance with IPIA.

2. 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 Federal Deposit Insurance Corporation, the National Credit Union Administration, the OCC, and the CFPB and to make recommendations to promote uniformity in the supervision of financial institutions.

Audits, Evaluations, and Inspections

Audits assess aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. For example, the OIG oversees audits of the Board's financial statements, and it conducts audits of (1) the efficiency and effectiveness of the Board's and the CFPB's processes and internal controls over their programs and operations; (2) the adequacy of controls and security measures governing these agencies' financial and management information systems and the safeguarding of assets and sensitive information; and (3) compliance with applicable laws and regulations related to agency financial, administrative, and program operations. OIG audits are performed in accordance with the *Government Auditing Standards* established by the Comptroller General of the United States.

Inspections and evaluations include program evaluations and legislatively mandated reviews of failed financial institutions supervised by the Board. Inspections are often 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 may make extensive use of statistical and quantitative analytical techniques. 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).

The information below summarizes OIG audit and evaluation work completed during the reporting period.

Board of Governors of the Federal Reserve System

The Board Can Enhance Its Diversity and Inclusion Efforts

OIG Report No. 2015-MO-B-006

March 31, 2015

We completed our review of the Board's diversity and inclusion efforts, which was conducted in response to a congressional request. The Board has established diversity and inclusion practices that are embedded in its longstanding EEO programs. Recent activities include adopting a more standardized process for recruiting officers, developing a formal agency-wide succession planning program to help identify a diverse pool of candidates for senior management positions, and conducting an agency-wide employee survey.

We identified areas of the Board's diversity and inclusion efforts that can be enhanced. First, the Board can enhance its efforts to track and analyze certain types of workforce data that can be used to identify diversity and inclusion trends. Second, the Office of Diversity and Inclusion can increase its interaction with all Board divisions and provide diversity and inclusion and EEO training on a regular basis. Third, the Board should formalize standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce to fully comply with section 342 of the Dodd-Frank Act. Fourth, the Board can further enhance its diversity and inclusion goals and objectives by finalizing and implementing its diversity strategic plan.

We acknowledge that initiatives and activities that are beyond the scope of our review also contribute to enhancing diversity and inclusion. Therefore, the Board's ability to attract, develop, and retain a diverse and inclusive workforce is affected by other factors not specifically identified in our report. Our report contains recommendations designed to enhance and promote diversity and inclusion at the Board. The Board concurred with our recommendations and outlined planned, ongoing, and completed activities. The Board has taken steps to improve the collection of applicant demographic data, provide non-EEO statistics, and finalize the diversity and inclusion strategic plan. In addition, the Board plans to enhance certain functions within the Office of Diversity and Inclusion.

The Board Should Enhance Its Supervisory Processes as a Result of Lessons Learned From the Federal Reserve's Supervision of JPMorgan Chase & Company's Chief Investment Office

OIG Report No. 2014-SR-B-017

October 17, 2014

We completed our evaluation of the Federal Reserve's supervisory activities related to the loss at JPMorgan Chase & Company's Chief Investment Office. We found that there was a missed opportunity for FRB New York and the OCC to discuss risks related to the Chief Investment Office and consider how to deploy the agencies' collective resources most effectively. We also found that (1) Federal Reserve and OCC staff lacked a common understanding of the Federal Reserve's approach for examining Edge Act corporations, (2) FRB New York staff were not clear about the expected deliverables resulting from continuous monitoring activities, and (3) FRB New York's JPMorgan Chase & Company supervisory teams appeared to exhibit key-person dependencies. We made recommendations that encourage the Board's Division of Banking Supervision and Regulation to enhance its supervisory processes and approach to consolidated supervision for large, complex banking organizations. We released the summary version of our report in October 2014 and a redacted version of our full report in January 2015.

Review of the Failure of Waccamaw Bank

OIG Report No. 2015-SR-B-005

March 26, 2015

Waccamaw Bank was supervised both by the Federal Reserve Bank of Richmond under delegated authority from the Board and by the North Carolina Office of the Commissioner of Banks. On June 8, 2012, the North Carolina Office of the Commissioner of Banks closed Waccamaw Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. The FDIC estimated that the failure of Waccamaw Bank would result in a \$51.1 million loss to the DIF, which was beneath the material loss threshold. Consistent with Dodd-Frank Act requirements, we concluded that Waccamaw Bank's failure presented unusual circumstances that warranted an in-depth review.

Based on the in-depth review, we determined that Waccamaw Bank failed because its board of directors and senior management did not control the risks associated with its rapid growth strategy. As a result, the bank sustained significant losses during a downturn in its local real estate market. In addition, we learned that (1) supervisory activity records were not retained in accordance with Board policy, (2) Waccamaw Bank's written agreement did not contain a provision that required regulatory approval of material transactions, and (3) Board and Federal Reserve Bank of Richmond appeals policies were silent on procedural aspects for second-level and third-level appeals. We made recommendations related to the Board's records retention and appeals policies and procedures. The Director of the Division of Banking Supervision and Regulation agreed with our recommendations and outlined planned corrective actions to address them.

The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program

OIG Report No. 2014-IT-B-018

October 30, 2014

We completed our review of the Board's contingency planning and continuity of operations program (COOP). Overall, we found that the Board has developed a strategy and taken a number of actions to ensure the continuous operation of critical missions and essential functions in any emergency. The Board has developed a COOP that implements emergency management policy, identifies emergency management responsibilities, and specifies procedures for the development and implementation of timely emergency responses. The Board also has dedicated COOP personnel and has secured a well-equipped alternate work site.

Our audit identified areas in which the Board could improve its program to better ensure the timely recovery of mission-essential functions and systems. Specifically, we identified that the Board's ability to perform its mission during an emergency may be affected by (1) the lack of centralized governance for the Board's COOP and (2) several critical components that are missing from the Board's COOP. We also identified three areas for management consideration, related to the lodging of relocated Board staff, accounting for COOP-related costs, and analyzing leasing costs for the Board's contingency site. Our report includes recommendations

that focus on strengthening the Board's ability to perform its mission-essential functions during an emergency. The Board outlined actions that have been or will be taken to address our recommendations.

2014 Audit of the Board's Information Security Program

OIG Report No. 2014-IT-B-019

November 14, 2014

We completed our annual review of the Board's information security program. FISMA requires the OIG to conduct an annual, independent evaluation of the agency's information security program and practices. Overall, we found that the Board's Chief Information Officer 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 and the Office of Management and Budget. The Information Security Officer continues to issue policies and procedures to transition the Board's information security program to an integrated, organization-wide program for managing information security risks.

Our report includes one new recommendation for improving the tracking of division-level plans of action and milestones. Our 2012 recommendation on contractor systems and our 2013 recommendation on continuous monitoring remain open. The Director of the Division of Information Technology agreed with the new recommendation and stated that the division will take immediate action to address the recommendation, including continuing to manually collect quarterly plan of action and milestones reports from the offices and divisions until the automated plan of action and milestones tracking process is fully implemented.

Opportunities Exist to Improve the Operational Efficiency and Effectiveness of the Board's Information Security Life Cycle

OIG Report No. 2014-IT-B-021

December 18, 2014

We completed our review of the operational efficiency and effectiveness of the Board's information security life cycle. We performed this audit pursuant to requirements set forth in FISMA.

Overall, we found that the Chief Information Officer maintains a FISMA-compliant information security program that is consistent with requirements for certification and accreditation established by the National Institute of Standards and Technology and the Office of Management and Budget; however, we identified opportunities to improve the operational efficiency and effectiveness of the Board's management of its information security life cycle. Our report contains recommendations designed to improve the operational efficiency and effectiveness of the Board's information security life cycle process. The Director of the Division of Information Technology agreed with the recommendations and stated that the division will take action to address the recommendations.

Audit of Planned Physical and Environmental Controls for the Board's Data Center Relocation

OIG Report No. 2015-IT-B-001

January 30, 2015

We completed our review of the planned physical and environmental controls for the Board's data center relocation. In addition to these controls, we also reviewed the change order and procurement processes and followed up on the budget and project schedule recommendations from our initial audit.³ Overall, our audit determined that the Board is continuing to follow a structured approach to planning and executing the relocation of the data center, and Board staff are actively engaged in the planning and decisionmaking for the project. The tracking and monitoring of the budget have improved since our previous audit, and the budget has been updated to reflect the information currently available regarding actual costs. The Division of Information Technology has taken steps to monitor the timeline closely and to update the Chief Operating Officer about the project and delays that have occurred.

We identified, however, that additional actions are needed by the Board to ensure that all physical and environmental controls will be implemented in accordance with Board requirements. Further, prior to the relocation, the Board's data center must be authorized to operate based on a security package that includes a system security plan and risk assessment, in accordance with the *Board Information Security Program*. The Director of the Division of Information

3. Office of Inspector General, *Audit of the Board's Data Center Relocation*, OIG Report No. 2014-IT-B-002, February 7, 2014.

Technology agreed with our recommendation and outlined the actions that the division is taking to address the recommendation.

Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Reports

OIG Report No. 2015-FMIC-B-003

March 12, 2015

We contracted with an independent public accounting firm to audit the financial statements of the Board, and to audit the Board's internal control over financial reporting. The contract requires the audits of the financial statements to be performed in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and with auditing standards of the Public Company Accounting Oversight Board. The contract also requires the audit of internal control over financial reporting to be performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the auditing standards of the Public Company Accounting Oversight Board. The OIG reviews and monitors the work of the independent public accounting firm to ensure compliance with *Government Auditing Standards* and the contract.

In the auditors' opinion, the financial statements presented fairly, in all material respects, the financial position of the Board as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in the auditors' opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* by the Committee of Sponsoring Organizations of the Treadway Commission. The auditors' report on compliance and other matters disclosed no instances of noncompliance or other matters.

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Reports

OIG Report No. 2015-FMIC-B-004

March 17, 2015

The Board performs the accounting function for the FFIEC, and we contracted with an independent public accounting firm to audit the financial statements of the FFIEC. The contract requires the audits to be performed in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The OIG reviews and monitors the work of the independent public accounting firm to ensure compliance with *Government Auditing Standards* and the contract.

In the auditors' opinion, the financial statements presented fairly, in all material respects, the financial position of the FFIEC as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. However, in their report on internal control over financial reporting and on compliance and other matters, the auditors cited a matter involving internal control over financial reporting that they considered to be a material weakness. The material weakness identified related to the periodic determination and review of the useful life assigned to certain internal-use software. The report disclosed no instances of noncompliance or other matters.

Table 1: Audit, Inspection, and Evaluation Reports Issued to the Board During the Reporting Period

Report title	Type of report
The Board Can Enhance Its Diversity and Inclusion Efforts	Audit
Review of the Failure of Waccamaw Bank	Evaluation
Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Reports	Audit
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Reports	Audit
Audit of Planned Physical and Environmental Controls for the Board's Data Center Relocation	Audit
Opportunities Exist to Improve the Operational Efficiency and Effectiveness of the Board's Information Security Life Cycle	Audit
2014 Audit of the Board's Information Security Program	Audit
The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program	Audit
The Board Should Enhance Its Supervisory Processes as a Result of Lessons Learned From the Federal Reserve's Supervision of JPMorgan Chase & Company's Chief Investment Office	Evaluation

Total number of audit reports: 7

Total number of inspection and evaluation reports: 2

Table 2: Audit, Inspection, and Evaluation Reports Issued to the Board With Questioned Costs and Unsupported Costs During the Reporting Period^a

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

Table 3: 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.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period^a

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Evaluation of Service Credit Computations	08/05	3	3	–	09/13	2	1
Evaluation of Data Flows for Board Employee Data Received by Office of Employee Benefits and Its Contractors (nonpublic report)	09/08	2	2	–	12/14	2	–
Security Control Review of the Internet Electronic Submission System (nonpublic report)	12/10	6	6	–	03/15	3	3
Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings	06/11	2	2	–	03/15	–	2
Review of the Failure of Pierce Commercial Bank	09/11	2	2	–	03/15	1	1

See notes at end of table.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period^a (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Security Control Review of the Visitor Registration System (nonpublic report)	09/11	10	10	–	12/14	10	–
Evaluation of Prompt Regulatory Action Implementation	09/11	1 ^b	1	–	–	–	1
Audit of the Board's Information Security Program	11/11	1	1	–	12/14	1	–
Security Control Review of the National Remote Access Services System (nonpublic report)	03/12	8	8	–	11/14	7	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	–	03/15	–	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
Audit of the Small Community Bank Examination Process	08/12	1	1	–	–	–	1
Audit of the Board's Actions to Analyze Mortgage Foreclosure Processing Risks	09/12	2	2	–	03/15	1	1
Security Control Review of the Aon Hewitt Employee Benefits System (nonpublic report)	09/12	8	8	–	12/14	4	4
2012 Audit of the Board's Information Security Program	11/12	2	2	–	11/14	1	1
Security Control Review of Contingency Planning Controls for the Information Technology General Support System (nonpublic report)	12/12	5	5	–	12/14	3	2

See notes at end of table.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period^a (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
Review of the Failure of Bank of Whitman	03/13	1	1	–	03/15	–	1
Controls over the Board's Purchase Card Program Can Be Strengthened	03/13	3	3	–	09/14	2	1
Board Should Enhance Compliance with Small Entity Compliance Guide Requirements Contained in the Small Business Regulatory Enforcement Fairness Act of 1996	07/13	2	2	–	03/15	–	2
Security Control Review of the Board's National Examination Database System (nonpublic report)	07/13	4	4	–	–	–	4
Security Control Review of a Third-party Commercial Data Exchange Service Used by the Board's Division of Banking Supervision and Regulation (nonpublic report)	08/13	11	11	–	–	–	11
The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control	09/13	1	1	–	–	–	1
The Board Should Improve Procedures for Preparing for and Responding to Emergency Events	09/13	7	7	–	03/15	4	3
2013 Audit of the Board's Information Security Program	11/13	2	2	–	12/14	1	1
Audit of the Board's Data Center Relocation	02/14	2	2	–	01/15	1	1
Opportunities Exist to Achieve Operational Efficiencies in the Board's Management of Information Technology Services	02/14	2	2	–	–	–	2

See notes at end of table.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period^a (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
The Board's Law Enforcement Unit Could Benefit From Enhanced Oversight and Controls to Ensure Compliance With Applicable Regulations and Policies	03/14	10	10	–	03/15	10	–
Opportunities Exist for the Board to Improve Recordkeeping, Cost Estimation, and Cost Management Processes for the Martin Building Construction and Renovation Project	03/14	6	6	–	09/14	3	3
The Board Should Enhance Its Policies and Procedures Related to Conference Activities	06/14	5	5	–	03/15	2	3
Enforcement Actions and Professional Liability Claims Against Institution-Affiliated Parties and Individuals Associated with Failed Institutions	07/14	3 ^b	3	–	–	–	3
Security Control Review of the Board's E ² Solutions Travel Management System	08/14	5	5	–	–	–	5
Opportunities Exist to Enhance the Onsite Reviews of the Reserve Banks' Wholesale Financial Services	09/14	1	1	–	–	–	1
Opportunities Exist to Enhance the Board's Oversight of Future Complex Enforcement Actions	09/14	5	5	–	03/15	–	5
The Board Should Enhance Its Supervisory Processes as a Result of Lessons Learned From the Federal Reserve's Supervision of JPMorgan Chase & Company's Chief Investment Office	10/14	10	10	–	03/15	–	10
The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program	10/14	4	4	–	–	–	4

See notes at end of table.

Table 4: OIG Reports to the Board With Recommendations That Were Open During the Reporting Period^a (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
2014 Audit of the Board's Information Security Program	11/14	1	1	–	–	–	1
Opportunities Exist to Improve the Operational Efficiency and Effectiveness of the Board's Information Security Life Cycle	12/14	3	3	–	–	–	3
Audit of Planned Physical and Environmental Controls for the Board's Data Center Relocation	01/15	1	1	–	–	–	1
Review of the Failure of Waccamaw Bank	03/15	5	5	–	–	–	5
The Board Can Enhance Its Diversity and Inclusion Efforts	03/15	11	11	–	–	–	11

- 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. These recommendations were directed jointly to the OCC, the FDIC, and the Board.

Consumer Financial Protection Bureau

The CFPB Can Enhance Its Diversity and Inclusion Efforts

OIG Report No. 2015-MO-C-002

March 4, 2015

We completed our review of the CFPB's diversity and inclusion efforts, which was conducted in response to a congressional request. Overall, our audit determined that the CFPB has taken steps to foster a diverse and inclusive workforce since it began operations in July 2011. Recent activities include elevating the Office of Minority and Women Inclusion and the Office of Equal Employment Opportunity to the Office of the Director; conducting listening sessions with employees to identify and respond to perceptions of fairness, equality, and inclusion; and creating an internal advisory council and working groups to focus on diversity and inclusion issues.

We identified four areas of the CFPB's diversity and inclusion efforts that can be enhanced. First, diversity and inclusion training is not mandatory for CFPB employees, supervisors, and senior managers. Second, data quality issues exist in the CFPB's tracking spreadsheets for EEO complaints and negotiated grievances, and certain data related to performance management are not analyzed for trends that could indicate potential diversity and inclusion issues. Third, the CFPB's diversity and inclusion strategic plan has not been finalized, and opportunities exist for the CFPB to strengthen supervisors' and senior managers' accountability for implementing diversity and inclusion initiatives and human resources-related policies. Finally, the CFPB would benefit from a formal succession planning process to help ensure that it will have a sufficient and diverse pool of candidates for its senior management positions. We acknowledge that initiatives and activities that are beyond the scope of our review also contribute to enhancing diversity and inclusion. Therefore, the CFPB's ability to attract, develop, and retain a diverse and inclusive workforce is affected by other factors not specifically identified in our report.

Our report contains recommendations designed to improve the monitoring and the promotion of diversity and inclusion at the CFPB, as well as to strengthen related controls. The CFPB concurred with our recommendations and outlined planned,

ongoing, and completed activities related to analyzing performance management data, performance management training, and tracking of EEO and non-EEO complaints. In addition, the CFPB developed and approved standard operating procedures to address several recommendations and has worked with its union to develop a new performance management system.

Security Control Review of the CFPB's Tableau System

OIG Report No. 2015-IT-C-007

March 31, 2015

FISMA requires the OIG to evaluate the effectiveness of the information security controls and techniques for a subset of the agency's information systems, including those provided or managed by another agency, a contractor, or another organization. To meet FISMA requirements, we reviewed the information system security controls for the CFPB's Tableau system. Tableau is a commercial-off-the-shelf tool deployed on the CFPB's cloud computing-based general support system that provides business intelligence capabilities, such as data analysis and integration, for multiple CFPB systems.

Overall, we found that the CFPB has taken a number of steps to secure the Tableau system in accordance with FISMA and the agency's information security policies and procedures. However, we found that improvements are needed in the implementation and monitoring of baseline security configurations to ensure that components of Tableau are securely configured. Our report includes recommendations to strengthen configuration management processes for Tableau. The Chief Information Officer concurred with our recommendations and outlined actions that have been or will be taken to address our recommendations.

We also identified opportunities to improve security controls related to the auditing and contingency planning capabilities for the system. The CFPB is taking steps to strengthen these areas, and as a result, we did not issue recommendations in these areas.

Fiscal Year 2014 Risk Assessment of the CFPB's Purchase Card and Travel Card Programs

December 23, 2014

As required by the Government Charge Card Abuse Prevention Act of 2012 and related guidance from the Office of Management and Budget, the OIG conducted a risk assessment of the CFPB's purchase card and travel card programs to determine the frequency and scope of future audits of these programs. This risk assessment is the OIG's first risk assessment of the CFPB's purchase card and travel card programs. The results of the risk assessment, conducted for fiscal year 2014, show that the risk of illegal, improper, or erroneous use in the CFPB's purchase card program is *low* and the risk level for the travel card program is *medium*.⁴ As a result, we will include an audit of the travel card program in the OIG's 2015 annual audit plan, and we will not include an audit of the purchase card program in that plan.

2014 Audit of the CFPB's Information Security Program

OIG Report No. 2014-IT-C-020

November 14, 2014

We completed our annual review of the CFPB's information security program. FISMA requires the OIG to conduct an annual, independent evaluation of the agency's information security program and practices. We found that the CFPB continues to take steps to mature its information security program and to ensure that it is consistent with the requirements of FISMA. Overall, we found that the CFPB's information security program is consistent with 9 of 11 information security areas. Although corrective actions are underway, further improvements are needed in security training and contingency planning. While we found that the CFPB's information security program was generally consistent with the requirements for continuous monitoring, configuration management, and incident response, we identified opportunities to strengthen these areas through automation and centralization.

Our report includes three new recommendations designed to strengthen the CFPB's information security continuous monitoring

-
4. *Low* signifies minimal impact on current operations and long-term objectives and that the likelihood of the event happening is remote. *Medium* signifies limited impact on current operations and long-term objectives and that the event could occur.

and configuration management practices. The Chief Information Officer concurred with our recommendations and outlined actions that have been taken, are underway, and are planned to strengthen the CFPB’s information security program. In addition, our 2013 FISMA audit report included recommendations to develop and implement (1) an organization-wide configuration management plan and consistent process for patch management, (2) a capability to centrally track and analyze audit logs and security incident information, and (3) a role-based training program. Corrective actions to address these recommendations have not been finalized, and the recommendations remain open.

Table 5: Audit, Inspection, and Evaluation Reports Issued to the CFPB During the Reporting Period

Report title	Type of report
Security Control Review of the CFPB’s Tableau System	Audit
The CFPB Can Enhance Its Diversity and Inclusion Efforts	Audit
Fiscal Year 2014 Risk Assessment of the CFPB’s Purchase Card and Travel Card Programs	Risk assessment
2014 Audit of the CFPB’s Information Security Program	Audit

Total number of audit reports: 3
 Total number of inspection and evaluation reports: 0
 Total number of risk assessments: 1

Table 6: Audit, Inspection, and Evaluation Reports Issued to the CFPB With Questioned Costs and Unsupported Costs During the Reporting Period^a

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

Table 7: 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.

Table 8: OIG Reports to the CFPB With Recommendations That Were Open During the Reporting Period^a

Report title	Issue date	Recommendations			Status of recommendations		
		Number	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	–	03/15	3	2
Security Control Review of the Consumer Financial Protection Bureau's Consumer Response System (nonpublic report)	03/13	9	9	–	03/14	8	1
Opportunities Exist to Enhance the CFPB's Policies, Procedures, and Monitoring Activities for Conferences	08/13	4	4	–	03/15	2	2
The CFPB Should Strengthen Internal Controls for Its Government Travel Card Program to Ensure Program Integrity	09/13	14	14	–	01/15	8	6
2013 Audit of the CFPB's Information Security Program	12/13	4	4	–	11/14	1	3
The CFPB Should Reassess Its Approach to Integrating Enforcement Attorneys Into Examinations and Enhance Associated Safeguards	12/13	7	7	–	03/15	7	–
The CFPB Can Improve the Efficiency and Effectiveness of Its Supervisory Activities	03/14	12	12	–	03/15	8	4
The CFPB Has Established Effective GPRA Processes, but Opportunities Exist for Further Enhancement	06/14	3	3	–	–	–	3
Security Control Review of the CFPB's Cloud Computing–Based General Support System	07/14	4	4	–	–	–	4
The CFPB Complies With Section 1100G of the Dodd-Frank Act, but Opportunities Exist for the CFPB to Enhance Its Process	09/14	3	3	–	–	–	3
Audit of the CFPB's Acquisition and Contract Management of Select Cloud Computing Services	09/14	4	4	–	–	–	4

See note at end of table.

Table 8: OIG Reports to the CFPB With Recommendations That Were Open During the Reporting Period^a (continued)

Report title	Issue date	Recommendations			Status of recommendations		
		Number	Mgmt. agrees	Mgmt. disagrees	Last follow-up date	Closed	Open
2014 Audit of the CFPB's Information Security Program	11/14	3	3	-	-	-	3
The CFPB Can Enhance Its Diversity and Inclusion Efforts	03/15	17	17	-	-	-	17
Security Control Review of the CFPB's Tableau System	03/15	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.

Failed State Member Bank Reviews

Material Loss Reviews

Section 38(k) of the Federal Deposit Insurance Act, as amended, 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 that the projected loss to the DIF is material. Under section 38(k), a material loss to the DIF is defined as an estimated loss in excess of \$150 million for the period January 1, 2012, through December 31, 2013; for all such losses occurring on or after January 1, 2014, the materiality threshold is \$50 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

We did not conduct any material loss reviews during this reporting period.

Nonmaterial Loss Reviews

The Federal Deposit Insurance Act, as amended, 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 and (2) whether the losses to the DIF present unusual circumstances that would warrant an in-depth review. Generally, the in-depth review process is the same as that for material loss reviews, but in-depth reviews are not subject to the six-month reporting deadline.

The IG must semiannually report the dates when each such review and report will be completed. If an in-depth review is not warranted, the IG is required to provide an explanation of this determination. 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 potentially fraudulent activity.

Nonmaterial Losses Warranting an In-Depth Review

During this semiannual period, there was one failed state member bank with losses to the DIF that did not meet the materiality threshold to require a material loss review. We determined that the circumstances of this bank failure warrant an in-depth review.

Table 9: Nonmaterial State Member Bank Failure During the Reporting Period

State member bank	Location	Asset size (millions)	DIF projected loss (millions)	Closure date	OIG summary of state’s grounds for receivership	OIG determination
NBRS Financial Bank	Rising Sun, MD	\$188.2	\$24.3	10/17/2014	Unsafe and unsound condition.	Circumstances warrant an in-depth review.

During this reporting period, we also completed our in-depth review of the failure of Waccamaw Bank (see “[Review of the Failure of Waccamaw Bank](#)” on page 11).

Investigations

The OIG's Office of Investigations 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, seek and execute search and arrest warrants, and make arrests without a warrant in certain circumstances. OIG investigations are conducted in compliance with CIGIE's *Quality Standards for Investigations* and the *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority*.

During this period, the Office of Investigations met with other financial OIGs to discuss matters of mutual interest, joint investigative operations, joint training opportunities, and OIG hotline operations and processes. The office also met with officials at both the Board and the CFPB to discuss investigative operations and the investigative process.

Board of Governors of the Federal Reserve System

The Board is responsible for consolidated supervision of bank holding companies, including financial holding companies formed under the Gramm-Leach-Bliley Act. Under delegated authority from the Board, the Reserve Banks execute the day-to-day supervision of bank and financial holding companies, and the Board's Division of Banking Supervision and Regulation is responsible for overseeing the Reserve Banks' supervisory activities.

The Board is also responsible for supervising and regulating state-chartered banks that are members of the Federal Reserve System. Under delegated authority from the Board, the Reserve Banks execute the day-to-day supervision of state member banks, and the Board's Division of Banking Supervision and Regulation is responsible for overseeing the Reserve Banks' supervisory activities.

Our office's investigations concerning bank holding companies and state member banks typically involve allegations that holding

company directors or officers falsified financial records, lied to or misled examiners, or obstructed examinations in a manner that may have obstructed the Board's ability to carry out its supervisory and regulatory responsibilities over these entities. Such activity may result in criminal violations, such as false statements or obstruction of a bank examination. Examples of investigations affecting the Board's ability to carry out its supervisory and regulatory responsibilities are provided below; however, due to prosecutorial discretion and the nature of the investigative process, certain criminal allegations investigated by our office may not appear in U.S. Department of Justice indictments, plea agreements, or press releases.

Bank Holding Companies

Two United Commercial Bank Officials Pleaded Guilty to Conspiracy; Former Chief Operating Officer and Chief Credit Officer Convicted of Securities and Other Corporate Fraud

On October 7, 2014, a former Vice President of UCB pleaded guilty to charges of conspiracy to commit false bank entries, reports, and transactions related to his preparation of false and misleading reports. On December 9, 2014, a former Chief Financial Officer of UCB pleaded guilty to one count of conspiracy to make a materially false and misleading statement to an accountant. The plea follows an earlier indictment that charged him with multiple offenses. On March 25, 2015, a federal jury convicted the former UCB Chief Operating Officer and Chief Credit Officer of seven felony counts of conspiracy, securities fraud, and other corporate fraud offenses stemming from the bank's failure. The defendant was found guilty of conspiring with others within the bank to falsify key bank records as part of a scheme to conceal millions of dollars in losses and falsely inflate the bank's financial statements.

On November 6, 2009, UCB, of San Francisco, California, was closed and the FDIC was appointed as receiver. It has been reported that the failure of UCB resulted in approximately \$1.1 billion in losses. In addition, UCB accepted approximately \$297 million in federal funds during the 2008 financial crisis, which has not been

repaid. UCB's holding company, UCBH Holdings Inc., is regulated by the Board.

This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, the Federal Bureau of Investigation (FBI), the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), and the U.S. Attorney's Office for the Northern District of California.

Former NOVA Bank Officers Charged With Conspiracy, False Statements, and Bank Fraud

On October 2, 2014, the former bank officers of NOVA Bank were indicted on fraud conspiracy charges by a grand jury in the Eastern District of Pennsylvania. The alleged scheme was an attempt to defraud the government of more than \$13 million in Troubled Asset Relief Program (TARP) funds. The defendants are each charged with conspiracy to defraud the United States, TARP fraud, two counts of false statements to the federal government, and bank fraud. The former bank Board Chairman was also charged with two counts of wire fraud. NOVA Bank's holding company, NOVA Financial Holdings, Inc., of Berwyn, Pennsylvania, is regulated by the Board.

Among other activities, both subjects allegedly devised a fraudulent scheme to create the appearance of private investors providing the bank with new capital. The defendants also allegedly directed employees to tell the U.S. Department of the Treasury that NOVA Bank had raised new capital when it had not. The bank was ultimately unable to raise private capital and did not receive TARP funds; in October 2012, the bank failed and was closed by state and federal banking regulators.

This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, the FBI, SIGTARP, IRS-Criminal Investigation, and the U.S. Attorney's Office for the Eastern District of Pennsylvania.

Former Bank Director, Accused of Embezzling More Than \$20 Million, Sentenced

A former bank Director, who was indicted in July 2012 by a federal grand jury in the Southern District of Georgia on a charge that he defrauded the Montgomery Bank & Trust, of Ailey, Georgia, of over \$21 million, was sentenced on October 28, 2014, to 30 years in federal prison. Montgomery Bank & Trust is a subsidiary of Montgomery County Bankshares, Inc., a bank holding company regulated by the Board.

In addition to being sentenced to 30 years' imprisonment, the former bank Director was also sentenced to serve a term of 5 years of supervised release and ordered to forfeit a total of \$51 million, representing the proceeds of his crimes, and to pay restitution to the victims of his crimes in an amount to be determined at a later restitution hearing.

According to the allegations in the indictment, in 2010 an investment group controlled by the former bank Director invested approximately \$10 million in the failing Montgomery Bank & Trust. He was then made a Director of Montgomery Bank & Trust and became responsible for investing the bank's capital. The indictment alleged that over the next 18 months, he stole, misappropriated, and embezzled over \$21 million from Montgomery Bank & Trust. To cover up his fraud, he allegedly provided bank officials with false account statements that indicated that the bank's capital was safely held in an account at a financial services firm. He was arrested in December 2013, pleaded guilty in later court hearings, and was sentenced in October 2014.

This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, the FBI, and the U.S. Attorney's Office for the Southern District of Georgia.

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the CFPB to implement and enforce “federal consumer financial law” and transferred to the CFPB the consumer protection functions of several federal agencies. The CFPB’s five statutory objectives are (1) to provide consumers with critical information about financial transactions, (2) to protect consumers from unfair practices, (3) to identify and address outdated and unduly burdensome regulations, (4) to foster transparency and efficiency in consumer financial product and service markets and to facilitate access and innovation, and (5) to enforce federal consumer financial law without regard to the status of the person to promote fair competition.

In general, the CFPB supervises three types of regulated entities: (1) nondepository covered persons (including mortgage brokers, loan modification services, payday lenders, consumer reporting agencies, debt collectors, and private education lenders); (2) “very large” banks, thrifts, and credit unions (with total assets in excess of \$10 billion); and (3) “other” banks, thrifts, and credit unions (with total assets of \$10 billion or less).

Our office’s investigations concerning the CFPB’s supervisory and regulatory responsibilities typically involve allegations that company directors or officers provided falsified business data and financial records to the CFPB, lied to or misled examiners, or obstructed examinations in a manner that may have affected the CFPB’s ability to carry out its supervisory and regulatory responsibilities over regulated entities. Such activity may result in criminal violations, such as false statements or obstruction of a bank examination. Examples of investigations affecting the CFPB’s ability to carry out its supervisory and regulatory responsibilities are provided below; however, due to prosecutorial discretion and the nature of the investigative process, certain criminal allegations investigated by our office may not appear in U.S. Department of Justice indictments, plea agreements, or press releases.

Indictment Unsealed Charging Six Individuals as a Part of Alleged Home Loan Modification Services Scheme

On March 6, 2015, a 40-count federal indictment was unsealed in U.S. District Court in Salt Lake City, Utah, charging six individuals

with conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering, in an alleged scheme to market and sell home loan modification services under the guise of a law firm. The CFPB normally regulates mortgage service providers, unless such services are provided by a law firm. The Board-CFPB OIG investigated this matter in part to determine whether any misrepresentations were made to the CFPB in an effort to obstruct the agency's enforcement program.

The indictment alleges that the object of the conspiracy for the defendants was to market and sell loan modification services using false and fraudulent pretenses to obtain money from customers and to enrich themselves. According to allegations in the indictment, two of the defendants started their loan modification business in July 2009 and hired attorneys to create the false impression that their loan modification business was a law firm. The indictment alleges that nonattorney processors and telemarketers working for them performed most if not all the work for customers seeking loan modifications. In August 2009, one of the defendants obtained information about homeowners who were delinquent on their mortgage payments and hired third parties, including a telemarketing center in California, to market his loan modification business to these homeowners.

The case is being investigated by the Board-CFPB OIG, SIGTARP, IRS-Criminal Investigation, the FBI, the Federal Housing Finance Agency OIG, and the U.S. Attorney's Office for the District of Utah.

Table 10: Summary Statistics on Investigations During the Reporting Period^a

Investigative actions	Number or dollar value
Investigative caseload	
Investigations open at end of previous reporting period	66
Investigations opened during the reporting period	13
Investigations closed during the reporting period	16
Investigations open at end of the period	63
Investigative results for the reporting period	
Referred to prosecutor	22
Joint investigations	26
Referred to audit	1
Referred for administrative action	0
Oral and/or written reprimands	0
Terminations of employment	1
Arrests	13
Suspensions	0
Debarments	0
Indictments	13
Criminal informations	2
Convictions	3
Monetary recoveries	\$1,582
Civil actions	\$24,630,000
Criminal fines, restitution, and forfeiture	\$464,000
Asset forfeiture	\$0

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

Hotline

The OIG Hotline serves as a resource for individuals to report fraud, waste, abuse, or mismanagement related to the programs or operations of the Board and the CFPB. Hotline staff can be reached by phone, e-mail, web form, fax, or mail. OIG analysts review all incoming Hotline communications, research and analyze the issues raised, and determine how best to address the complaints. During this reporting period, the Hotline received 278 complaints.

The OIG continued to receive a significant number of complaints from individuals seeking information about or wanting to file noncriminal consumer complaints regarding consumer financial products and services. In these matters, Hotline staff members typically refer complainants to the consumer group of the appropriate federal regulator for the institution involved, such as the OCC Customer Assistance Group or the CFPB Consumer Response team.

The OIG Hotline continued to receive complaints involving suspicious solicitations invoking the name of the Federal Reserve. Hotline staff members continue to advise all individuals that these phishing e-mails are solicitations that attempt to obtain the personal or financial information of the recipient and that neither the Board nor the Reserve Banks endorse or have any involvement in them.

Table 11: Summary Statistics on Hotline Activities During the Reporting Period

Hotline complaints	Number
Complaints pending from previous reporting period	0
Complaints received during reporting period	278
Total complaints for reporting period	278
Complaints resolved during reporting period	273
Complaints pending	5

Legislative and Regulatory Review, Congressional and Media Activities, and CIGIE Participation

18

legislative items reviewed

6

regulatory items reviewed

94

responses to congressional members and staff

73

responses to media inquiries

2

outreach meetings with the media

Legislative and Regulatory Review

The Legal Services program serves as the independent legal counsel to the IG and the OIG staff. Legal Services staff members provide comprehensive legal advice, research, counseling, analysis, and representation in support of OIG audits, investigations, inspections, evaluations, and other professional, management, and administrative functions. 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 Inspector General Act of 1978, as amended, Legal Services staff members conduct 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 18 legislative items and 6 regulatory items.

Congressional and Media Activities

The OIG communicates and coordinates with various congressional committees on issues of mutual interest. During the reporting period, we provided 94 responses to congressional members and staff concerning the Board and the CFPB. Additionally, the OIG responded to 73 media inquiries and conducted 2 outreach meetings with the media.

CIGIE Participation

The IG is a member of CIGIE, which provides a forum for IGs from various government agencies to discuss governmentwide 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 Investigations 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 Investigations Committee advises the IG community on issues involving criminal investigations, criminal investigations personnel, and criminal investigative guidelines.

The Associate Inspector General for Legal Services serves as the Chair of CIGIE's Council of Counsels to the Inspector General, and Legal Services staff attorneys are members of the council.

In addition, the Associate Inspector General for Information Technology, as the Chair of the Information Technology Committee of the Federal Audit Executive Council, works with information technology audit staff throughout the IG community and reports to the CIGIE Audit Committee and Information Technology Committee on common information technology audit issues.

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 Inspector General Act of 1978 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.

- During this period, we completed a peer review of the U.S. Department of Commerce (Commerce) OIG audit organization. We found that the Commerce OIG audit organization's system of quality control in effect for the year ended September 30, 2014, has been suitably designed and complied with to provide the Commerce OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Commerce OIG has received a peer review rating of *pass*. Our system review report did not contain any recommendations, and no recommendations remain outstanding or not fully implemented from any previous peer reviews of the Commerce OIG audit organization.
- During this period, we completed a review of the system of internal safeguards and management procedures for the investigative operations of the Commerce OIG. In our opinion, the system of internal safeguards and management procedures for the investigative function of the Commerce OIG in effect for the period ended September 30, 2014, is in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. These safeguards and procedures provide the Commerce OIG reasonable assurance of conformance with professional standards in the planning, execution, and reporting of its investigations.
- The last peer review of our audit organization was completed in September 2014 by the Tennessee Valley Authority OIG. We received a peer review rating of *pass*. There were no report

recommendations, nor were any recommendations pending from any previous peer reviews of our audit organization.

- The last peer review of our Office of Investigations was completed in October 2013 by the U.S. Railroad Retirement Board OIG. We received a peer review rating of *pass*. There were no report recommendations, nor were any recommendations pending from any previous peer reviews of our investigative organization. The peer review included suggestions for improvement, which we have considered and incorporated into updated policies and procedures where appropriate.

Peer review reports of our organization are available on our website: <http://oig.federalreserve.gov/reports/peer-reviews.htm>.

Abbreviations

Board	Board of Governors of the Federal Reserve System
CFPB	Consumer Financial Protection Bureau
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
Commerce	U.S. Department of Commerce
COOP	continuity of operations program
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EEO	equal employment opportunity
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FISMA	Federal Information Security Management Act of 2002
FRB New York	Federal Reserve Bank of New York
IG	Inspector General
IPIA	Improper Payments Information Act of 2002, as amended
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
Reserve Bank	Federal Reserve Bank
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
UCB	United Commercial Bank



Office of Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551
Phone: 202-973-5000 | Fax: 202-973-5044

OIG Hotline 1-800-827-3340 | OIGHotline@frb.gov