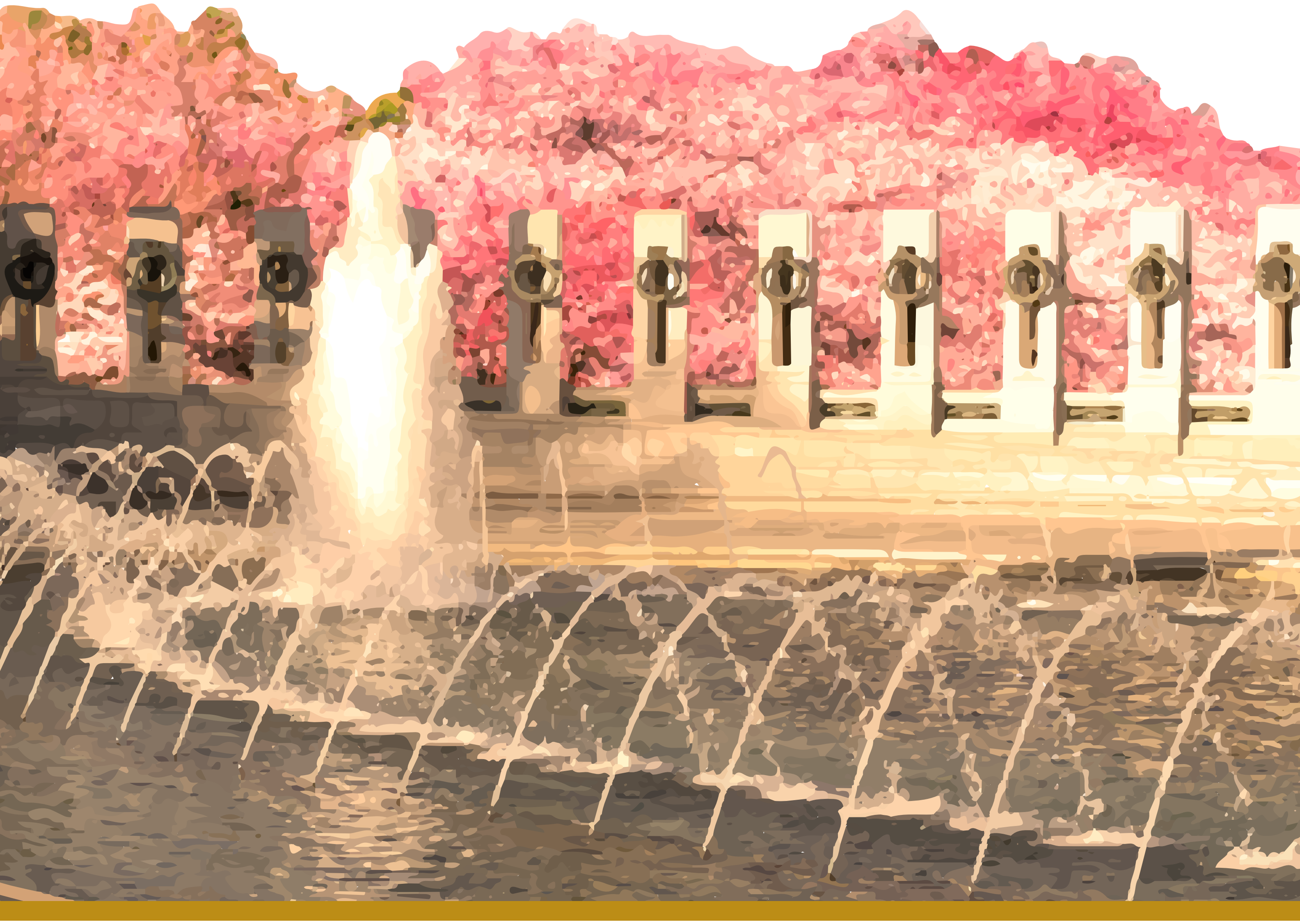
SEMIANNUAL
REPORT TO CONGRESS
October 1, 2015–March 31, 2016



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

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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

In thinking about the work we have done over the last six months, I take pride that we have been pursuing the right initiatives and providing the right leadership on important issues, such as information security. In addition to critical, statutory work, such as audits of financial statements and information security, we have taken unique approaches on risks specific to the Board of Governors of the Federal Reserve System (Board) and the Consumer Financial Protection Bureau (CFPB). As we move forward, we will continue to adapt our approach to provide value and insight that promotes agency improvement.

We have collaborated with our information technology audit colleagues in the Inspector General community to develop a maturity model to assist Inspectors General in determining the effectiveness of information security controls as part of reviews required by the Federal Information Security Modernization Act. This group created an innovative maturity model for information security continuous monitoring—a priority area for the Administration—that provides information on the effectiveness of information security controls as well as a common framework to measure and benchmark information security progress across the government. Building on its success, we will continue to work with our information technology audit colleagues in the Inspector General community to expand the maturity model to other information security areas.

In addition to information security, our audits and evaluations have looked at supervision, financial management, and internal controls, while our investigations have adapted to cases particular to the banking regulatory environment. For example, one evaluation identified additional opportunities for the Board to further strengthen its supervisory stress testing model validation and governance practices. We also audited the CFPB's space-planning activities and found that the CFPB could benefit from implementing a process to manage information about its evolving space needs. And we reviewed the CFPB's Civil Penalty Fund victim identification process.

As mentioned above, we have tailored our investigations to fit the unique regulatory environments of the Board and the CFPB. In addition to important investigations surrounding employee misconduct or the leak or conversion of financial intelligence, our investigations focus on direct fraud against the programs and operations of the Board and the CFPB. Supervision and regulation are critical programs of both agencies. Misrepresentations, lies, obstruction, and false data provided to examiners, directors, and others detrimentally affect the Board's and the CFPB's ability to carry out their programmatic responsibilities. We have strengthened our efforts with agency staff and law enforcement partners to collaborate on early fraud referrals to detect and deter criminal activity designed to conceal misconduct from regulators and obstruct the oversight process.

We continued our outreach and engagement with the Board and the CFPB, which is one of our strategic plan goals. We opened our New York field office and developed the framework for a more formal outreach program that will be initiated in 2016.

Looking forward, we will continue to develop new ways to zero in on important work that will help the programs and operations of the Board and the CFPB. As we continue to explore these areas, I would like to thank our staff for their hard work, dedication, and commitment to our mission, and I would like to thank the Board and the CFPB for their continued cooperation and support.

Sincerely,

Mark Bialek

Mark Bialek
Inspector General
April 29, 2016

Contents

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

10 reports issued	**6** Board **4** CFPB
55 recommendations closed	**35** Board **20** CFPB

Supervisory Stress Testing Model Validation. Overall, we found that the Board has demonstrated its commitment to continuous improvement by identifying enhancements to supervisory stress testing model validation and governance as a result of internal reviews. We also identified additional opportunities to further strengthen the Board's model validation and governance practices, such as enhancing the controls around changes to models that occur late in the supervisory stress testing cycle.

The CFPB's Space Planning. We identified controls that the CFPB's Office of the Administrative Officer is using to plan for CFPB headquarters office space; however, we found that the CFPB could benefit from implementing a process to manage information about its regional space needs and associated costs.

NBRS Financial's Failure. Our review of the Federal Reserve Bank of Richmond's (FRB Richmond) supervision of NBRS Financial, a failed state member bank, did not reveal any opportunities for the Reserve Bank to have taken stronger supervisory action sooner. The review did result in one finding related to the potential fraud and insider abuse risks presented by dominant management officials.

The Board's Information Security Program. Overall, we found that the Board's Chief Information Officer has developed, documented, and implemented an information security program that is generally consistent with the requirements established by the Federal Information Security Modernization Act of 2014 (FISMA). We identified opportunities for improvement in the areas of information security continuous monitoring (ISCM), configuration management, and identity and access management. We also completed a system security control review of the Board's Statistics and Reserves System (STAR) and identified improvements needed in security controls and the Board's information security program.

The CFPB's Information Security Program. The CFPB continues to mature its information security program and ensure that the program is consistent with FISMA; however, we identified improvements that are needed in the areas of ISCM, configuration management, incident response and reporting, security training, policy management, and remote access. Our report includes two recommendations to strengthen the CFPB's information security and remote access management.

Financial Statement Audits of the Board and the Federal Financial Institutions Examination Council (FFIEC). We issued the financial statement audits for the Board and the FFIEC, both of which received "clean," unmodified opinions. The Board also received a "clean," unqualified opinion on internal control over financial reporting. We contracted with KPMG LLP, an independent public accounting firm, to conduct the audits, and we oversaw its work.

Investigations

17
cases opened

9
cases closed

7
matters for prosecutorial consideration

4
indictments

$961,820,719
in criminal fines, restitution, and forfeiture

Former Federal Reserve Bank of New York Examiner and Former Investment Bank Associate Plead Guilty to Theft of Confidential Information From the Federal Reserve Bank of New York (FRB New York). A former Goldman Sachs associate and a former FRB New York bank examiner were sentenced after pleading guilty in November 2015 to theft of confidential information from FRB New York.

Former Federal Reserve Bank Examiner Found Guilty of Making False Statements. A former Federal Reserve bank examiner was indicted and found guilty of failing to disclose to the Federal Reserve Bank of San Francisco (FRB San Francisco) on his annual conflicts of interest disclosure form that he was the director of a corporation looking to buy a bank in San Francisco. He was also found guilty of making false statements to influence the Federal Deposit Insurance Corporation (FDIC).

Former President and Chief Executive Officer (CEO) of Farmers Exchange Bank Charged With Theft by a Bank Employee, Obstructing Examination of Financial Institutions, and Bank Fraud. A former President and CEO of Farmers Exchange Bank was charged with one count each of theft, embezzlement, or misapplication by a bank employee; obstructing examination of a financial institution; and bank fraud. The investigation determined that the defendant used at least $500,000 of bank funds to make equipment and automobile purchases for personal reasons. The defendant recorded the expenses in general ledgers at the bank as entries (e.g., supplies) to make it seem that they were legitimate expenses.

Former Stearns Bank Official Sentenced to 30 Months and Ordered to Pay $13 Million in Restitution for Making False Bank Entries. A former bank official of Stearns Bank National Association of St. Cloud, Minnesota, and officer for Stearns Financial Services, a bank holding company regulated by the Board, was sentenced to 30 months in prison, three years of supervised release, and $13 million in restitution. The defendant created false entries that caused Stearns Bank to buy nonexistent receivables from two student loan companies. Through these entries, Stearns Bank provided significant funds to the companies. Stearns Bank ultimately sold the portfolio of accounts receivable to another bank, which consequently suffered losses of approximately $13 million.

Wilmington Trust Corporation (WTC) Added as Defendant in a Superseding Indictment. WTC, a state member bank supervised by the Board, was added as a defendant to the indictment already pending against four former WTC senior executives. The 19-count superseding indictment charges the defendants with making false statements to the Board and the U.S. Securities and Exchange Commission (SEC) in securities filings. WTC, through the actions of the charged senior executives, concealed the truth about the health of its loan portfolio from the SEC, the investing public, and WTC's regulators.

Former Owner of Mortgage Relief Assistance Business Sentenced to 70 Months and Over $236,000 in Restitution for Mail Fraud and Aggravated Identity Theft. The former owner of several illegitimate mortgage relief assistance businesses was sentenced to serve 70 months in prison and three years' probation, and to pay over $236,000 in restitution, for one count of mail fraud and two counts of aggravated identity theft. This sentence stems from a scheme to defraud homeowners facing foreclosure. The defendant defrauded distressed homeowners by falsely claiming that she was an attorney or with a law firm, promising she could lower their mortgage payments, and offering money-back guarantees. In addition, the defendant committed bankruptcy fraud to conceal her scheme and committed perjury by stating in a civil action by the CFPB that she had stopped offering mortgage assistance relief.

Individual Pleads Guilty for Part in Home Loan Modification Services Scheme. A defendant pleaded guilty to conspiracy to market and sell loan modification services under false and fraudulent pretenses. The investigation showed that the defendant and others made false and misleading statements to potential customers in order to convince them to pay for loan modification services. These statements misrepresented businesses as law firms, guaranteed successful loan modifications, and stated that information was submitted to a formal board of attorneys for review and approval. Instead, customers were contacted by employees who were not lawyers and had little or no legal experience.

Introduction

Congress established the OIG as the independent oversight authority for 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 in order 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 in order to 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 that we report on the failure 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.

- 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.
- The Federal Information Security Management Act of 2002, 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 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 its Consumer Financial 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.
- Section 211(f) of the Dodd-Frank Act requires that the OIG review and report on the Board's supervision of any covered financial company that is placed into receivership. 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), which 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.[1] Additionally,

1. CIGFO comprises the IGs 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 FDIC, the Federal Housing Finance Agency, the National Credit Union Administration, the SEC, and the Office of the Special Inspector General for the Troubled Asset Relief Program.

CIGFO is required to report annually about the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO also can 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.

- 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.
- 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 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.

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 FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency, 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 their safeguarding of assets and sensitive information; and (3) compliance with applicable laws and regulations related to the agencies' 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 particular issues or topics and provide time-critical analyses. Evaluations are generally focused on the effectiveness of specific programs or functions. 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 Identified Areas of Improvement for Its Supervisory Stress Testing Model Validation Activities, and Opportunities Exist for Further Enhancement

OIG Report 2015-SR-B-018 **October 29, 2015**

This evaluation assessed the extent to which the Board's model risk management practices in support of supervisory stress testing are consistent with model risk management guidance applicable to supervised financial institutions. We focused on stress testing model validation but also evaluated broader governance, policies, and controls.

The Dodd-Frank Act mandated that the Federal Reserve conduct annual stress tests of all bank holding companies with $50 billion or more in total consolidated assets. In late 2010, the Federal Reserve initiated the annual Comprehensive Capital Analysis and Review exercise, which includes quantitative stress tests and a qualitative assessment of the largest bank holding companies' capital planning practices. The Comprehensive Capital Analysis and Review has developed into the cornerstone of the Federal Reserve System's supervisory program for the largest bank holding companies.

Overall, we found that the Board has demonstrated its commitment to continuous improvement by identifying enhancements to supervisory stress testing model validation and governance. For example, in 2014, the Board completed three reviews assessing its performance and that of the broader supervisory stress testing program, and it identified several areas for improvement, including transitioning to a new staffing approach.

Although the reviews and the subsequent actions taken by the Board demonstrate its focus on continuous improvement, we identified (1) certain risks associated with validation staffing and performance management that may not be mitigated by the new staffing approach, (2) controls around changes to models that occur late in the supervisory stress testing cycle that need to be enhanced, (3) several components that should be included in the supervisory stress testing model inventory, and (4) limitations encountered by reviewers during model validation that were not documented in validation reports submitted to Board management.

Our report contains recommendations designed to strengthen supervisory stress testing model validation and governance practices. The Board generally agreed with our recommendations and noted that it is already implementing or has completed a number of our recommended actions.

Security Control Review of the Board's Statistics and Reserves System

OIG Report 2015-IT-B-021 **December 17, 2015**

STAR is a web-based application that collects and edits over 75 periodic statistical reports that are received from financial institutions. In addition, the system manages financial institutions' reserve requirements and term deposits.

We performed this audit in accordance with FISMA requirements. Specifically, we evaluated the adequacy of selected information security controls for protecting Board data in STAR from unauthorized access, modification, destruction, or disclosure, as well as the system's compliance with FISMA and the Board's information security policies, procedures, standards, and guidelines.

Overall, we found that the Board's Division of Monetary Affairs and its Division of Information Technology have taken several steps to implement information security controls for STAR, in accordance with FISMA and the *Board Information Security Program*. However, we found that improvements are needed in the Board's security governance of STAR to ensure that information security controls are adequately implemented, assessed, authorized, and monitored.

Our report includes recommendations that focus on strengthening information security controls related to planning, security assessment and authorization, contingency planning, auditing, access control, risk assessment, and system and information integrity. The Board agreed with our recommendations and outlined actions that have been or will be taken to address them.

2015 Audit of the Board's Information Security Program

OIG Report 2015-IT-B-019 **November 13, 2015**

FISMA requires IGs to conduct an annual, independent evaluation of their respective agencies' information security programs and practices. In support of FISMA's independent evaluation requirements, the U.S. Department of Homeland Security issued guidance to IGs on FISMA reporting for 2015. The guidance directs IGs to evaluate agencies' information security programs in 10 areas. The guidance also references a new five-level maturity model for IGs to use in assessing agencies' ISCM programs. In accordance with these requirements, we reviewed the Board's information security program. Specifically, we evaluated (1) the Board's compliance with FISMA and related information security policies, procedures, standards, and guidance, and (2) the effectiveness of security controls and techniques for a subset of the Board's information systems.

Overall, we found that the Board's Chief Information Officer has developed, documented, and implemented an information security program that is generally consistent with the requirements established by FISMA and the 10 areas outlined in the U.S. Department of Homeland Security's FISMA reporting guidance for IGs.

Our report includes recommendations to strengthen the Board's information security program in the areas of ISCM, configuration management, and identity and access management. The Board agreed with our recommendations and noted that it is addressing them. Further, based on corrective actions taken by the Board's Information Security Officer, we closed the open recommendations from our prior years' FISMA reports related to contractor systems, ISCM, and plans of action and milestones.

Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Reports

OIG Report 2016-FMIC-B-004 **March 8, 2016**

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 the auditing standards generally accepted in the United States of America, the standards applicable to financial audits in the *Government Auditing Standards* issued by the U.S. Comptroller General, and the 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 the attestation standards established by the American Institute of Certified Public Accountants and 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, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.[3] Also, in the auditors' opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, 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.

3. The financial statements as of and for the year ended December 31, 2014, were audited by the prior independent public accounting firm.

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Reports

OIG Report 2016-FMIC-B-003 **March 2, 2016**

The Board performs the accounting function for the FFIEC, and we contract with an independent public accounting firm to annually 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 auditing standards applicable to financial audits in the *Government Auditing Standards* issued by the U.S. Comptroller General. 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, 2015, and the results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.[4] The auditors' reports on internal control over financial reporting and on compliance and other matters disclosed no instances of noncompliance or other matters.

4. The financial statements as of and for the year ended December 31, 2014, were audited by the prior independent public accounting firm.

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

Report title	Type of report
The Board Identified Areas of Improvement for Its Supervisory Stress Testing Model Validation Activities, and Opportunities Exist for Further Enhancement	Evaluation
2015 Audit of the Board's Information Security Program	Audit
Security Control Review of the Board's Statistics and Reserves System	Audit
Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Reports	Audit
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Reports	Audit
Review of the Failure of NBRS Financial	Evaluation

Total number of audit reports: 4
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
Security Control Review of the Internet Electronic Submission System (nonpublic report)	12/10	6	6	–	03/16	6	–
Response to a Congressional Request Regarding the Economic Analysis Associated with Specified Rulemakings	06/11	2	2	–	03/15	–	2
Evaluation of Prompt Regulatory Action Implementation	09/11	1[b]	1	–	–	–	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	–	09/15	–	12

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 Unauthorized Disclosure of a Confidential Staff Draft of the Volcker Rule Notice of Proposed Rulemaking	07/12	3	3	–	03/16	3	–
Audit of the Small Community Bank Examination Process	08/12	1	1	–	03/16	1	–
Audit of the Board's Actions to Analyze Mortgage Foreclosure Processing Risks	09/12	2	2	–	10/15	2	–
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	–	11/15	2	–
Security Control Review of Contingency Planning Controls for the Information Technology General Support System (nonpublic report)	12/12	5	5	–	09/15	3	2
Review of the Failure of Bank of Whitman	03/13	1	1	–	02/16	1	–
Controls over the Board's Purchase Card Program Can Be Strengthened	03/13	3	3	–	03/16	3	–
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 a Third-party Commercial Data Exchange Service Used by the Board's Division of Banking Supervision and Regulation (nonpublic report)	08/13	11	11	–	09/15	9	2
The Board Can Benefit from Implementing an Agency-Wide Process for Maintaining and Monitoring Administrative Internal Control	09/13	1	1	–	03/16	–	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
The Board Should Improve Procedures for Preparing for and Responding to Emergency Events	09/13	7	7	–	03/16	7	–
2013 Audit of the Board's Information Security Program	11/13	2	2	–	11/15	2	–
Opportunities Exist to Achieve Operational Efficiencies in the Board's Management of Information Technology Services	02/14	2	2	–	09/15	–	2
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	–	05/15	4	1
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	–	02/16	5	–
Opportunities Exist to Enhance the Onsite Reviews of the Reserve Banks' Wholesale Financial Services	09/14	1	1	–	03/16	1	–
Opportunities Exist to Enhance the Board's Oversight of Future Complex Enforcement Actions	09/14	5	5	–	02/16	3	2
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	–	03/16	6	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
The Board Can Better Coordinate Its Contingency Planning and Continuity of Operations Program	10/14	4	4	–	02/16	1	3
2014 Audit of the Board's Information Security Program	11/14	1	1	–	11/15	1	–
Opportunities Exist to Improve the Operational Efficiency and Effectiveness of the Board's Information Security Life Cycle	12/14	3	3	–	–	–	3
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	–	03/16	7	4
Security Control Review of the Board's Consolidated Supervision Comparative Analysis, Planning and Execution System	09/15	3	3	–	–	–	3
The Board Identified Areas of Improvement for Its Supervisory Stress Testing Model Validation Activities, and Opportunities Exist for Further Enhancement	10/15	8	8	–	–	–	8
2015 Audit of the Board's Information Security Program	11/15	4	4	–	–	–	4
Security Control Review of the Board's Statistics and Reserves System	12/15	6	6	–	–	–	6
Review of the Failure of NBRS Financial	03/16	1	1	–	–	–	1

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 Office of the Comptroller of the Currency, the FDIC, and the Board.

Consumer Financial Protection Bureau

Collecting Additional Information Can Help the CFPB Manage Its Future Space-Planning Activities

OIG Report 2016-FMIC-C-002 **February 3, 2016**

The CFPB's Office of Administrative Operations is responsible for managing space for approximately 1,500 CFPB employees in its headquarters and regional offices. In fiscal year 2015, the CFPB budgeted $29.6 million for its occupancy agreements for these offices, which includes $10.0 million for temporary office space that is needed because the CFPB is renovating its headquarters building.

We assessed the CFPB's short-term and long-term space planning to determine whether controls are in place to effectively manage the agency's space needs and associated costs. We focused on the CFPB's processes for planning, obtaining, and managing space for both its headquarters and regional offices.

We identified controls that the Office of Administrative Operations is using to plan for CFPB headquarters office space; however, we found that the CFPB could benefit from implementing a process to manage information about its regional space needs and associated costs. The Office of Administrative Operations plans to continue using the U.S. General Services Administration for its future regional space procurement needs, and the U.S. General Services Administration gathers relevant information from the CFPB to gain an understanding of its space requirements. Therefore, our report includes a recommendation designed to ensure that the CFPB consistently collects, maintains, and uses information about its evolving space needs to manage the agency's future space planning and associated costs. The CFPB agreed with our recommendation and outlined planned corrective actions.

The CFPB's Civil Penalty Fund Victim Identification Process Is Generally Effective but Can Be Enhanced

OIG Report 2016-FMIC-C-001 **January 19, 2016**

The Consumer Financial Civil Penalty Fund victim identification process includes collecting victim-related data, sorting and validating this data, and developing a final list of victims eligible to receive compensation. Our audit assessed the efficiency and effectiveness of the CFPB's process for identifying victims eligible to receive compensation from the Consumer Financial Civil Penalty Fund.

Overall, we found that the process is generally effective and efficient, but we noted that the Office of the Chief Financial Officer has not documented the roles and responsibilities of the Office of Technology and Innovation in identifying victims. Victim identification depends on data and, in some instances, requires the Office of Technology and Innovation to produce preliminary lists of those who are eligible for compensation. We suggested that the Chief Financial Officer, in coordination with the Office of Technology and Innovation, update the Office of the Chief Financial Officer's procedures to document its roles and responsibilities in identifying victims eligible for compensation. The CFPB agreed with our suggestion.

Fiscal Year 2015 Risk Assessment of the CFPB's Purchase Card Program

December 17, 2015

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 program to determine the frequency and scope of future audits. The results of the risk assessment show that the risk of illegal, improper, or erroneous use in the CFPB's purchase card program is *low*. Thus, we will not include an audit of the CFPB's purchase card program in the OIG's 2016 annual audit plan.

2015 Audit of the CFPB's Information Security Program

OIG Report 2015-IT-C-020 **November 13, 2015**

FISMA requires IGs to conduct an annual, independent evaluation of their respective agencies' information security programs and practices. In support of FISMA independent evaluation requirements, the U.S. Department of Homeland Security issued guidance to IGs on FISMA reporting for 2015. The guidance directs IGs to evaluate agencies' information security programs in 10 areas. The guidance also refers to a new five-level maturity model for IGs to use in assessing their agencies' ISCM programs. In accordance with these requirements, we reviewed the CFPB's information security program. Specifically, we evaluated the effectiveness of the CFPB's security controls and techniques as well as the CFPB's compliance with FISMA and related information security policies, procedures, standards, and guidelines.

We found that the CFPB has taken several steps to develop, document, and implement an information security program that is consistent with FISMA; however, we identified improvements that are needed in the areas of ISCM, configuration management, incident response and reporting, security training, policy management, and remote access. In addition, our 2013 and 2014 FISMA audit reports include six recommendations to strengthen the CFPB's ISCM, configuration management, incident response, and security training programs by improving planning, leveraging automation, and increasing centralization. We found that the agency was in the process of taking actions to close these recommendations.

Our report includes additional recommendations to strengthen the CFPB's information security policy and remote access management processes. The CFPB agreed with our recommendations and outlined actions that it has taken, is taking, or plans to take to strengthen its information security program.

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

Report title	Type of report
2015 Audit of the CFPB's Information Security Program	Audit
Fiscal Year 2015 Risk Assessment of the CFPB's Purchase Card Program	Risk assessment
The CFPB's Civil Penalty Fund Victim Identification Process Is Generally Effective but Can Be Enhanced	Audit
Collecting Additional Information Can Help the CFPB Manage Its Future Space-Planning Activities	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	–	03/16	3	2
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	–	03/16	11	3
2013 Audit of the CFPB's Information Security Program	12/13	4	4	–	11/14	1	3
The CFPB Can Improve the Efficiency and Effectiveness of Its Supervisory Activities	03/14	12	12	–	02/16	12	–
The CFPB Has Established Effective GPRA Processes, but Opportunities Exist for Further Enhancement	06/14	3	3	–	03/16	2	1
Security Control Review of the CFPB's Cloud Computing–Based General Support System	07/14	4	4	–	12/15	1	3
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	–	09/15	–	3
Audit of the CFPB's Acquisition and Contract Management of Select Cloud Computing Services	09/14	4	4	–	–	–	4
2014 Audit of the CFPB's Information Security Program	11/14	3	3	–	03/16	1	2
The CFPB Can Enhance Its Diversity and Inclusion Efforts	03/15	17	17	–	03/16	10	7
Security Control Review of the CFPB's Tableau System	03/15	3	3	–	03/16	2	1

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
The CFPB Can Enhance Its Process for Notifying Prudential Regulators of Potential Material Violations	06/15	1	1	–	01/16	1	–
Security Control Review of the CFPB's Data Team Complaint Database	07/15	7	7	–	–	–	7
CFPB Headquarters Construction Costs Appear Reasonable and Controls Are Designed Appropriately	07/15	1	1	–	03/16	–	1
The CFPB Can Further Enhance Internal Controls for Certain Hiring Processes	08/15	2	2	–	03/16	1	1
The CFPB Can Enhance Its Contract Management Processes and Related Controls	09/15	10	10	–	03/16	8	2
Opportunities Exist to Enhance Management Controls Over the CFPB's Consumer Complaint Database	09/15	8	8	–	03/16	2	6
2015 Audit of the CFPB's Information Security Program	11/15	2	2	–	–	–	2
Collecting Additional Information Can Help the CFPB Manage Its Future Space-Planning Activities	02/16	1	1	–	–	–	1

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

No state member bank failures occurred during the reporting period that required us to initiate a material loss review.

Nonmaterial Loss Reviews

The Federal Deposit Insurance Act, as amended, requires the IG of the appropriate federal banking agency to semiannually report 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 in-depth reviews. 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 completion dates for each such review. If an in-depth review is not warranted, the IG is required to explain 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 if there was potential fraud.

During this semiannual period, no state member bank failures occurred that warranted a nonmaterial loss review or an in-depth review. Our in-depth review of the 2014 failure of NBRS Financial, which was completed during the reporting period, is summarized below.

Review of the Failure of NBRS Financial

OIG Report 2016-SR-B-005 **March 31, 2016**

NBRS Financial, in Rising Sun, Maryland, operated as a national bank serving local communities for more than 120 years before transitioning from a national to a state charter in 2002. The bank was supervised by FRB Richmond and the Maryland Office of the Commissioner of Financial Regulation. On October 17, 2014, the Maryland Office of the Commissioner of Financial Regulation closed NBRS Financial and appointed the FDIC as receiver. Consistent with the requirements of section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Act, we conducted an in-depth review of the failure of NBRS Financial due to unusual circumstances.

NBRS Financial failed for several reasons. The bank consolidated authority in an individual who served as the President, CEO, and Chairman of the board of directors. This individual's dominant influence on the bank's operations limited the institution's ability to overcome its deteriorating financial condition. In addition, the board of directors approved a strategic plan that relied heavily on a perceived economic opportunity for the local economy that never materialized, and it also failed to adapt to changing market conditions in a timely manner. Further, the bank developed high concentrations in commercial real estate and extended large loans to single borrowers, which exacerbated the bank's concentration risk and resulted in numerous regulatory violations. NBRS Financial's board of directors and management also failed to establish adequate credit risk management practices and internal controls commensurate with the risks within the bank's loan portfolio. These concentrations and poor credit risk management practices, along with a deteriorating real estate market, resulted in asset quality deteriorations, significant losses, and an erosion of capital.

With respect to supervision, FRB Richmond complied with examination frequency guidelines, conducted regular offsite monitoring, and implemented prompt corrective action provisions during the time frame under review—2006 through 2014. FRB Richmond's supervisory activity during this period included formal enforcement actions in the form of a written agreement and a prompt corrective action directive. FRB Richmond took strong supervisory action in 2009 and even stronger supervisory action in 2012. Our review did not reveal any opportunities for the Reserve Bank to have taken stronger supervisory action sooner but did result in one finding related to the potential fraud and insider abuse risks that dominant management officials can present. We have reported on this theme in prior failed bank reviews.

Our report recommends that the Board develop guidance or training related to highlighting indicators of internal abuse or heightened fraud risk in situations involving dominant officials. The Board agreed with our recommendation and outlined planned corrective actions to address the recommendation.

Investigations

The OIG's Office of Investigations conducts investigations of criminal, civil, and administrative wrongdoing by Board and CFPB employees, as well as investigations of alleged misconduct or criminal activity that affects the Board's or the CFPB's ability to effectively supervise and regulate the financial community. 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 hotline operations. 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 supervise bank and financial holding companies, and the Board's Division of Banking Supervision and Regulation oversees the Reserve Banks' supervision.

The Board also supervises state-chartered banks that are members of the Federal Reserve System. Under delegated authority from the Board, the Reserve Banks supervise state member banks, and the Board's Division of Banking Supervision and Regulation oversees the Reserve Banks' supervision.

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 hindered the Board's ability to carry out its supervisory operations. Such activity may result in criminal violations, including false statements or obstruction of bank examinations. This reporting period's examples of investigations into matters affecting the Board's ability to carry out its supervisory responsibilities are provided below.

Former FRB New York Examiner and Former Goldman Sachs Associate Plead Guilty to Theft of Confidential Information From FRB New York

A former Goldman Sachs associate was sentenced to two years of probation and 300 hours of community service and fined $5,000. The associate pleaded guilty in November 2015 in U.S. District Court to theft of confidential information from FRB New York.

A former FRB New York bank examiner was sentenced to a year of probation and 200 hours of community service and fined $2,000. The former bank examiner pleaded guilty in November 2015 in U.S. District Court to theft of confidential information from FRB New York.

The investigation determined that the former investment bank associate from Goldman Sachs received confidential FRB New York bank supervision documents from the former FRB New York bank examiner. The former investment bank associate then used the confidential information to further his employment at Goldman Sachs.

This case was the result of a joint investigation by the Board-CFPB OIG, the Federal Bureau of Investigation (FBI), the FDIC OIG, the New York State Department of Financial Services, and the U.S. Attorney's Office for the Southern District of New York.

Former Federal Reserve Bank Examiner Found Guilty of Making False Statements

A former Federal Reserve bank examiner was indicted and found guilty of failing to disclose to FRB San Francisco on his annual conflicts of interest disclosure form that he was a director of a corporation looking to buy a bank in San Francisco. He was also found guilty of making false statements for the purpose of influencing an action of the FDIC.

From 2011 until 2013, the defendant worked for FRB San Francisco as a bank examiner and, at the same time, was the director of a corporation that took steps to acquire a California state-chartered bank located in San Francisco. FRB San Francisco conducts examinations and inspections of specific banking organizations as a delegated function from the Board. The defendant willfully and knowingly made a materially false, fictitious, and fraudulent statement when he certified to FRB San Francisco that he held no positions with another organization.

The defendant ultimately resigned his position with FRB San Francisco and subsequently submitted false information to the FDIC in an attempt to purchase this same state-chartered bank in San Francisco.

Former Senior Analyst at the Federal Reserve Bank of Chicago Pleads Guilty to Theft of Bank Property

A former senior analyst at the Federal Reserve Bank of Chicago pleaded guilty to theft of bank property while he was still employed by the Reserve Bank.

The investigation determined that the defendant was in discussions in May 2015 to take a position outside the Federal Reserve Bank of Chicago. Less than a week before accepting the new position, the defendant printed a confidential Federal Reserve document and took it home. After accepting the job, the defendant printed and brought home another 31 confidential Federal Reserve documents. On May 26, 2015, the defendant resigned from the bank and printed 3 more proprietary Federal Reserve documents to bring home.

The defendant initially denied that he took home the confidential documents. After a second interview, the defendant turned over four of the documents and told the agents he had shredded the rest. On June 6, 2015, the defendant turned over a bag full of shredded documents.

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

Former President and CEO of Farmers Exchange Bank Charged With Theft by a Bank Employee, Obstructing Examination of Financial Institutions, and Bank Fraud

A former President and CEO of Farmers Exchange Bank was charged with one count each of theft, embezzlement, or misapplication by a bank employee; obstructing examination of a financial institution; and bank fraud. The bank holding company for Farmers Exchange Bank is FEB Bancshares, Inc., which is supervised by the Board.

The investigation determined that the defendant used at least $500,000 of bank funds to make equipment and automobile purchases for personal reasons. The defendant recorded the expenses in general ledgers at the bank as entries, such as repairs, supplies, and loan collection, to make it seem that they were legitimate expenses.

During a 2014 examination, bank regulators discovered the equipment and automobile purchases and identified bank credit card charges that appeared to have no banking purpose. The defendant was questioned by bank regulators about these expenses and answered untruthfully. The defendant also admitted that he destroyed receipts and supporting documents related to the bank's credit card account.

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 Eastern District of Wisconsin.

Former United Commercial Bank (UCB) Chief Credit Officer, Previously Sentenced to Over Eight Years in Prison, Ordered to Pay Over $946 Million in Restitution

During the previous reporting period, we reported that after a jury trial, the former Chief Operating Officer and Chief Credit Officer for UCB of San Francisco was found guilty of one count each of conspiracy to commit false bank entries, reports, and transactions; false bank entries, reports, and transactions; conspiracy to commit securities fraud; securities fraud; falsifying corporate books and records; false statements to accountants; and circumventing internal accounting controls. These activities were carried out as part of a scheme to conspire with others in the bank to falsify key bank records in order to conceal millions of dollars in losses and falsely inflate the bank's financial statements. The defendant was sentenced to 97 months in prison.

During the current reporting period, the defendant was ordered to pay over $946 million in restitution. UCB's bank holding company, UCB Holdings Inc., was supervised by the Board.

This case was the result of a joint investigation by the Board-CFPB OIG, the FDIC OIG, the 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 Stearns Bank Official Sentenced to 30 Months in Prison and Ordered to Pay $13 Million in Restitution for Making False Bank Entries

A former bank official of Stearns Bank National Association of St. Cloud, Minnesota, was sentenced to 30 months in prison, three years of supervised release, and $13 million in restitution.

On September 15, 2015, the defendant pleaded guilty to one count of making false bank entries with the intent to defraud. The defendant was employed in the Factoring Division of Stearns Bank, which is also the sole subsidiary of Stearns Financial Services Incorporated. He was also an officer for Stearns Financial Services, which is a bank holding company regulated by the Board.

The defendant created false entries that caused Stearns Bank to buy nonexistent receivables from two student loan companies. Through these entries, Stearns Bank provided significant funds to the companies. Stearns Bank ultimately sold the portfolio of accounts receivable to another bank, which consequently suffered losses of approximately $13 million.

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

Former D'Hanis State Bank President Sentenced to Two Years and Ordered to Pay Over $817,000 in Restitution

The former President of D'Hanis State Bank (DSB) was sentenced to two years in prison and three years of supervised release and ordered to pay over $817,000 in restitution for wire fraud relating to the filing of fraudulent bank regulatory reports that overestimated the bank's assets. DSB's bank holding company, Medina Bankshares, Inc., is supervised by the Board.

This sentence followed a guilty plea by the defendant to one count of wire fraud for preparing and filing false reports with federal and state bank regulators on behalf of DSB and Medina Bankshares, Inc., which overstated the bank's assets by approximately $830,000. The defendant admitted that she e-mailed those false reports to a prospective buyer of DSB who then relied on these reports to purchase DSB. These false reports were in turn submitted to the Board as part of the approval process for the sale of DSB. The Board also relied on the accuracy of these reports in approving the sale of DSB.

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 Western District of Texas, San Antonio Division.

Former Onebanc Customer Sentenced in Money Laundering Scheme

During a prior reporting period, two former executives of Onebanc and One Financial Corporation were indicted for allegations that they attempted to hide from federal bank regulators a $1.5 million loss that the bank suffered as a result of a customer's default. The executives are scheduled for trial in May 2016.

During the current reporting period, the former Onebanc customer was sentenced to one year and one day in prison, to be followed by two years of supervised release, and ordered to pay $120,000 in restitution. The former customer pleaded guilty to one count of money laundering related to a $120,000 wire transfer from Onebanc to a bank in Florida in which he controlled an account. This customer was previously indicted for bank fraud involving a $1.5 million personal line of credit between himself and Onebanc, and he later defaulted. (The $120,000 wire transfer was part of the $1.5 million line of credit.) The indictment charging him with bank fraud was dismissed after he pleaded guilty to money laundering. One Financial Corporation is the bank holding company for Onebanc and is regulated by the Board.

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

Wilmington Trust Corporation Added as Defendant in a Superseding Indictment

WTC, a state member bank supervised by the Board, was added as a defendant to the indictment already pending against four former WTC senior executives. The 19-count superseding indictment charges the defendants with making false statements to the Board and the SEC in securities filings.

The investigation revealed that WTC was required to report in its quarterly filings with both the SEC and the Board the quantity of its loans for which payment was past due for 90 days or more. (Investors and banking regulators consider the amount of past-due loans at a bank an important metric in evaluating the health of a bank's loan portfolio.) WTC, through the actions of the charged senior executives, concealed the truth about the health of its loan portfolio from the SEC, the investing public, and WTC's regulators.

This case was the result of a joint investigation by the Board-CFPB OIG, the FBI, Internal Revenue Service-Criminal Investigation, SIGTARP, the SEC, and the U.S. Attorney's Office for the District of Delaware.

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the CFPB to implement and enforce federal consumer financial law. 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.

The CFPB supervises large banks, thrifts, and credit unions with total assets of more than $10 billion and certain nonbank entities, regardless of size, including mortgage brokers, loan modification providers, payday lenders, consumer reporting agencies, debt collectors, and private education lenders. Additionally, with certain exceptions, the CFPB's enforcement jurisdiction generally extends to individuals or entities who are or have engaged in conduct that violates federal consumer financial law.

Our office's investigations concerning the CFPB's 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 responsibilities. Such activity may result in criminal violations, such as false statements or obstruction of examinations. This reporting period's examples of investigations into matters affecting the CFPB's ability to carry out its supervisory responsibilities are provided below.

Former Owner of Mortgage Relief Assistance Business Sentenced to 70 Months and Over $236,000 in Restitution for Mail Fraud and Aggravated Identity Theft

The former owner of several illegitimate mortgage relief assistance businesses committed perjury by stating in a civil action by the CFPB that she had stopped offering mortgage assistance relief. 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 in an effort to obstruct the agency's enforcement program.

The defendant was sentenced to serve 70 months in prison and three years' probation and to pay over $236,000 in restitution for one count of mail fraud and two counts of aggravated identity theft. This sentence stems from a scheme to defraud homeowners facing foreclosure.

From December 2012 through October 2014, in Orange County, California, and elsewhere, the defendant defrauded distressed homeowners by falsely claiming that she was an attorney or with a law firm; promising she could lower their mortgage payments; and offering money-back guarantees. She also did not disclose that she had a restraining order and injunction against offering such services. In addition, the defendant committed perjury in civil actions by the CFPB and committed bankruptcy fraud to conceal her scheme.

This case was the result of a joint investigation by the Board-CFPB OIG, the Federal Housing Finance Agency OIG, SIGTARP, and the U.S. Attorney's Office for the Central District of California.

Individual Pleads Guilty for Part in Home Loan Modification Services Scheme

A defendant pleaded guilty to conspiracy to market and sell loan modification services under false and fraudulent pretenses. 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 in an effort to obstruct the agency's enforcement program.

The investigation showed that the defendant and others made false and misleading statements to potential customers in order to convince them to pay for loan modification services. These statements misrepresented businesses as law firms, guaranteed successful loan modifications, and stated that information was submitted to a formal board of attorneys for review and approval. Instead, customers were contacted by employees who were not lawyers and had little or no legal experience.

This case was the result of a joint investigation by the Board-CFPB OIG, the Federal Housing Finance Agency OIG, the FBI, SIGTARP, and the U.S. Attorney's Office for the District of Utah.

Former Owner of Payday Lending Businesses Indicted for Conspiracy and Wire Fraud

During the reporting period, the former owner and operator of a group of payday lending businesses was indicted by a federal grand jury in the U.S. District Court for the Southern District of New York on one count each of conspiracy to commit wire fraud, wire fraud, violation of the Racketeer Influenced and Corrupt Organizations Act by conspiring to collect unlawful debts, violation of the Racketeer Influenced and Corrupt Organizations Act by collecting unlawful debts, and violation of the Truth in Lending Act by making false disclosures.

The investigation determined that from about 2004 to about September 2014, the defendant, through his payday lending businesses, systematically exploited more than 620,000 financially disadvantaged individuals throughout the United States. The defendant extended loans to these individuals at interest rates of more than 700 percent using deceptive and misleading communications and contracts and in violation of the usury laws of numerous states.

Beginning in approximately 2006, in an attempt to evade regulatory oversight and avoid civil and criminal liability for his conduct, the defendant nominally incorporated his businesses overseas, first in Nevis and later in New Zealand, and claimed that the businesses could not be sued or be subject to regulatory enforcement action because they were beyond the jurisdiction of the United States. This scheme enabled his payday lending businesses to extend usurious loans contrary to state laws. The investigation also revealed that from approximately November 2006 through approximately August 2014, the defendant's payday lending businesses generated approximately $161 million in revenues, of which the defendant kept at least $27 million.

This case was the result of a joint investigation by the Board-CFPB OIG and the FBI, with prosecutorial support from the U.S. Attorney's Office for the Southern District of New York.

Table 9: 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	57
Investigations opened during the reporting period	17
Investigations closed during the reporting period	9
Investigations open at end of the period	65
Investigative results for the reporting period	
Referred to prosecutor	7
Joint investigations	53
Referred to audit	2
Referred for administrative action	0
Oral and/or written reprimands	0
Terminations of employment	0
Arrests	5
Suspensions	0
Debarments	1
Indictments	4
Criminal informations	3
Convictions	6
Monetary recoveries	$0
Civil actions	$0
Criminal fines, restitution, and forfeiture	$961,820,719
Asset forfeiture	$0

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

Hotline

The OIG Hotline helps people 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. The OIG reviews all incoming Hotline communications, researches and analyzes the issues raised, and determines how to best address the complaints. During this reporting period, the Hotline received 419 complaints.

The OIG Hotline continued to receive 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 Office of the Comptroller of the Currency's Customer Assistance Group or the CFPB Consumer Response team.

The OIG Hotline 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 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. As appropriate, the OIG may investigate these complaints.

Table 10: Summary Statistics on Hotline Activities During the Reporting Period

Hotline complaints	Number
Complaints pending from previous reporting period	2
Complaints received during reporting period	419
Total complaints for reporting period	421
Complaints resolved during reporting period	383
Complaints pending	38

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

17
legislative items reviewed

7
regulatory items reviewed

54
responses to congressional members and staff

31
responses to media inquiries

Legislative and Regulatory Review

The Legal Services program serves as the independent legal counsel to the IG and OIG staff. Legal Services provides comprehensive legal advice, research, counseling, analysis, and representation in support of OIG audits; investigations; inspections; evaluations; and other professional, management, and administrative functions. Legal Services also keeps the IG and OIG staff aware of recent legal developments that may affect 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 independently reviews 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 17 legislative items and 7 regulatory items.

Congressional and Media Activities

The OIG communicates and coordinates with various congressional committees on issues of mutual interest. During this reporting period, we provided 54 responses to congressional members and staff concerning the Board and the CFPB. Additionally, we responded to 31 media inquiries.

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, CIGIE's members work to improve government programs and operations. The IG also serves as a member of CIGIE's Legislation Committee and Investigations Committee. The Legislation Committee is the central point of information for 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 Assistant 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. The Associate Inspector General for Legal Services and the Legal Services staff attorneys are members of CIGIE's Council of Counsels to the Inspector General.

Peer Reviews

Government auditing and investigative standards require that our audit and investigative units 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 information about (1) peer reviews of their respective organizations and (2) their peer reviews of other OIGs. The following information addresses these Dodd-Frank Act requirements.

- In September 2014, the Tennessee Valley Authority OIG completed the latest peer review of our audit organization. We received a peer review rating of *pass*. There were no report recommendations, and we had no pending recommendations from previous peer reviews of our audit organization.
- In October 2013, the U.S. Railroad Retirement Board OIG completed the latest peer review of our Office of Investigations and rated us as passing. There were no report recommendations, and we had no pending recommendations from previous peer reviews of our investigations organization. The peer review included suggestions for improvement, which we have considered and incorporated into updated policies and procedures where appropriate.

See our website for peer review reports of our organization.

Abbreviations

Board	Board of Governors of the Federal Reserve System
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
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DSB	D'Hanis State Bank
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FISMA	Federal Information Security Modernization Act of 2014
FRB New York	Federal Reserve Bank of New York
FRB Richmond	Federal Reserve Bank of Richmond
FRB San Francisco	Federal Reserve Bank of San Francisco
IG	Inspector General
IPIA	Improper Payments Information Act of 2002, as amended
ISCM	information security continuous monitoring
OIG	Office of Inspector General
SEC	U.S. Securities and Exchange Commission
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
STAR	Statistics and Reserves System
UCB	United Commercial Bank
WTC	Wilmington Trust Corporation

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