

2019 Major Management Challenges for the Bureau



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection



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MEMORANDUM

DATE: September 30, 2019

TO: Kathy Kraninger
Director
Bureau of Consumer Financial Protection

FROM: Mark Bialek 
Inspector General

SUBJECT: *2019 Major Management Challenges for the Bureau*

We are pleased to provide you with our 2019 list of the major management challenges facing the Bureau of Consumer Financial Protection (Bureau). These challenges represent what we believe to be the areas that, if not addressed, are most likely to hamper the Bureau’s accomplishment of its strategic objectives.

We identified the Bureau’s major management challenges by identifying and assessing key themes from our audit and evaluation work as well as our understanding of the agency’s programs and operations. This year, we identified a new challenge for the Bureau regarding its responsibility to supervise nondepository financial service providers. The major management challenges, in order of significance, are as follows:

- Ensuring That an Effective Information Security Program Is in Place
- Managing the Human Capital Program
- Continuing to Refine the Supervision and Enforcement Strategy

We monitor the Bureau’s efforts to address the management challenges we identify each year. Our monitoring work includes following up on open recommendations and conducting related audit and evaluation work. As a result of this monitoring, we are no longer including the Strengthening Controls and Managing Risks challenge because the Bureau has committed to maintaining effective internal controls and following appropriate models for internal controls, and it has established an enterprise risk management program. For additional information on our ongoing and planned work, please see our [Work Plan](#).

We appreciate the cooperation that we received from the Bureau during this year’s management challenges process. If you would like to discuss any of the challenges, please feel free to contact me.

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Ensuring That an Effective Information Security Program Is in Place

The Bureau of Consumer Financial Protection (Bureau) collects and stores sensitive information, including confidential supervisory information and personally identifiable information, to support many of its mission-critical activities. Unauthorized access to or disclosure of this information, through internal or external threats, could undermine the public's trust in the Bureau and limit its ability to accomplish its mission. Although the Bureau continues to mature its information security program, it faces challenges in aligning its information security program, policies, and procedures with the agency's evolving enterprise risk management program; designing and implementing its insider threat program; and managing vulnerabilities.

Recent federal guidance emphasizes the importance of agencies implementing enterprise risk management processes. As the Bureau matures its enterprise risk management program by developing a risk appetite statement and tolerance levels, it will face challenges in aligning and updating its information security program to ensure that it has a consistent view of risks across the agency. In addition, the Bureau plans to completely migrate to the cloud by 2022; in moving from cloud first to cloud only, the Bureau will be challenged to establish the appropriate cloud governance structure to ensure that the cloud inventory has been properly risk assessed.

To monitor and protect against the unauthorized transfer of data and other internal and external threats, the Bureau's Office of Technology and Innovation coordinates with its network provider, which assists with monitoring and detecting exfiltration and other threats to the agency's external network perimeter. Bureau officials informed us that the agency has issued the *Insider Threat Program* and has begun deploying a data loss prevention solution. Although the Bureau has made progress with respect to insider threats, we have found issues with access controls for some collaboration tools and shared drives, which could lead to unauthorized access and possible data exfiltration.

An integral part of cyberhygiene is timely vulnerability mitigation. Although the Bureau has deployed a vulnerability management solution for the network and operating systems it manages, it has been challenged since 2014 to implement tools to scan applications and databases. In addition, remediating Bureau-identified vulnerabilities continues to be a challenge.



Managing the Human Capital Program

An agency's response to changes to its human capital environment can directly affect its ability to execute its mission efficiently and effectively. The Bureau's human capital program must adapt to recent changes in leadership and strategic direction, as well as new workforce priorities, to help ensure that staffing resources are used as effectively as possible.

In December 2018, the United States Senate confirmed a new Director for the Bureau. One of the Director's priorities is completing a resource alignment initiative. One aspect of this initiative seeks to help the Bureau better align its human capital resources with its current and emerging mission and programmatic goals. In addition, the Bureau has experienced turnover in several key information technology positions. Although the Bureau has leveraged an industry education framework to address the training requirements for cybersecurity personnel, recent turnover may delay its ability to meet the requirements of an executive order that highlights the importance of building a strong cybersecurity workforce. To support the Director's initiative and the Bureau's workforce planning needs, the Office of Human Capital will need to remain flexible and adaptable as the agency's operational environment continues to change and to identify strategies to overcome any challenges.

Maintaining a talented, diverse, inclusive, and engaged workforce is one of the Bureau's strategic objectives. In 2018, the Bureau's annual employee survey results reflected increased dissatisfaction, particularly with respect to questions related to compensation and performance. In response to the survey results, the Director assembled an agencywide workforce effectiveness committee to consider initiatives to address these issues. In addition, in 2019 the Office of Human Capital contracted for a comprehensive compensation study to help inform changes to the agency's compensation structure.

As the Bureau implements any potential recommendations resulting from the study, the agency will need to ensure that any changes to the compensation structure (1) align with the current performance management system and (2) are perceived as equitable and transparent by its workforce. Although the Bureau has worked to build its human capital program and develop a diverse, high-performing, and engaged workforce, the program will need to develop and implement strategies to address the various employee engagement challenges.



Continuing to Refine the Supervision and Enforcement Strategy

The Bureau is responsible for ensuring compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provides the Bureau with the authority to supervise depository institutions with more than \$10 billion in total assets and their affiliates and certain nondepository institutions, such as mortgage companies, payday lenders, private education lenders, and larger participants in other markets as defined by rules issued by the Bureau. An important objective of the Dodd-Frank Act is to ensure that federal consumer financial law is enforced consistently, without regard to whether a financial service provider is a depository institution or a nondepository institution. However, there are potentially tens of thousands of nondepository institutions under the Bureau's supervisory jurisdiction, and the agency does not have sufficient resources to supervise all these institutions. Because the Bureau's supervision approach has historically emphasized oversight activities at depository institutions, the Bureau must continue to assess, define, and evolve its strategy, including the types and frequency of supervisory activities, for overseeing nondepository institutions.

Further, the Bureau may apply supervision or enforcement tools in a variety of circumstances, and the selection and application of such tools are crucial to performing effective oversight. The Bureau has taken steps to determine which tool to employ for each matter, and it must continue to define and mature its tool selection process to promote consistency in its oversight of depository and nondepository institutions. As the Bureau continues to refine its supervision and enforcement strategy, it should evaluate its human capital needs to ensure that it maintains a workforce with the requisite skills and expertise to support its strategy.



Abbreviations

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| Bureau | Bureau of Consumer Financial Protection |
| Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act |

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